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VA GUARANTEED HOME LOAN PROGRAM IN THE STATE OF NEW JERSEY

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COMPLETED

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

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CONTENTS

OCTOBER 18, 1985

VA Guaranteed Home Loan Program in the State of New Jersey ..... Page 1

OPENING STATEMENTS

Chairman Shelby 1
Hon. Christopher H. Smith 2

WITNESSES

Berman, Michael, State Commander, Jewish War Veterans; accompanied by Harvey S. Friedman, National Commander
Prepared statement of Mr. Berman 33
DeRitter, Elmer, Jr., loan guaranty officer, Veterans' Administration regional office, Newark, NJ 76
Prepared statement of Mr. DeRitter 4
Hincken, Robert, assistant inspector general, Veterans' Administration, Washington, DC; accompanied by Vernon Oakum, deputy assistant inspector general 41
Prepared statement of Mr. Hincken 16
Jordan, Robert R., Sr., member, board of directors, Mortgage Bankers Association of NJ 52
Prepared statement of Mr. Jordan 22
Levy, E. Robert, Mortgage Bankers Association of NJ 61
Prepared statement of Mr. Levy 21
Llewellyn, Joseph, service officer, Disabled American Veterans 59
Prepared statement of Mr. Llewellyn 30
Stone, Ralph, service officer, American Legion; accompanied by Robert Field 72
Prepared statement of Mr. Stone 31
Sikking, John H., realtor, New Jersey Association of Realtors 74
Prepared statement of Mr. Sikking 24
Woodbury, John, service officer, Veterans of Foreign Wars 63
Prepared statement of Mr. Woodbury 28
67

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VA GUARANTEED HOME LOAN PROGRAM IN THE STATE OF NEW JERSEY

Friday, October 18, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 7 p.m., in the Mercer room, Capital Plaza Hotel, 240 West State St., Trenton, NJ, Hon. Richard Shelby, presiding.

Present: Representatives Shelby and Smith of New Jersey.

OPENING STATEMENT OF CHAIRMAN SHELBY

Mr. SHELBY. The subcommittee will come to order.

This hearing will focus on the operation of the VA Home Loan Guaranty Program in the State of New Jersey. The VA Home Loan Guaranty Program has been a huge success over the years. Over 11.7 million loans have been guaranteed since its inception 41 years ago.

Approximately 448,000 loans have been guaranteed in the State of New Jersey, at a total of $7.5 billion in value. Not only does this program benefit our veterans, but it has served to boost the economy all over the country, including the State of New Jersey.

Recently, the subcommittee, which has jurisdiction over the national cemetery system, as well as the Home Loan Guaranty Program, has concentrated its efforts in the field. We were in California last month and in Denver last week. It is very important to get out of Washington every now and then to ascertain the grassroots reaction on how the program is truly operating.

I am glad to be in New Jersey tonight and look forward to hearing from all of our scheduled witnesses. I want to take this opportunity to say that since I have been chairman of the subcommittee, I have enjoyed my working relationship with the subcommittee's ranking minority member, the gentleman from New Jersey, the Honorable Chris Smith.

He is a most capable Member of Congress and has been instrumental in the passage of several measures, which have been of benefit to veterans.

Additionally, with Congressman Smith's help, we were able to actively defeat several Grace Commission-types of proposals, which, if enacted, could have served to kill this beneficial VA Home Loan Guaranty Program.

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He has made his intentions clear that we will continue to keep this program in operation.

Today, we will be hearing from Veterans' Administration spokesmen, who will discuss the operation of the Home Loan Guaranty Program, dealing with everything from loan origination, workload and property management.

As with any large program, we sometimes hear of instances of fraud and abuse. It is particularly disturbing to me because any fraud and abuse of a program tends to undermine it, regardless of how isolated the instances occur.

At the same time, the recent economic recession, with an increase in defaulted loans, has caused some difficulty with the loan guaranty revolving fund. The problems relating to the revolving fund are increased when fraud and abuse are present.

The committee is vitally interested in seeing that these fraudulent activities are stopped. In this connection, we will also hear from the Assistant Inspector General of the Veterans' Administration on his investigative activities.

Now, I cannot emphasize enough that the Inspector General and others are actively investigating the reported frauds involving VA home loans, and the committee does not intend to do anything that would jeopardize any sensitive inquiries or legal actions that are now underway by the Justice Department.

As I said, we are aware of the existence of some reports of serious problems, and we will be following them very closely.

The Chair would, at this time, like to recognize the gentleman from New Jersey, Congressman Smith.

OPENING STATEMENT OF HON. CHRISTOPHER H. SMITH

Mr. SMITH. Thank you, Mr. Chairman.

First of all, I want to welcome you to Trenton. Certainly, Trenton is a long way from Alabama, and I appreciate you taking the time to come out this evening. I would also like to welcome the witnesses, some already here and others on their way, who will be sharing with us their insights as to what is occurring relative to the VA Home Loan Program here in the State.

Mr. Chairman, since its inception some 40 years ago, the VA Home Loan Program has been one of the most basic and important benefits this country extends to its veterans. Over 11.5 million veterans have received home loans through the program, resulting in an infusion of over $200 billion into the U.S. economy.

New Jersey, as my friend from Alabama has just pointed out, has benefitted greatly from the VA Home Loan Program, with about 448,000 loans guaranteed in our State, at a total of some $7.5 billion.

Under the VA Home Loan Program, the VA guarantees a portion of the mortgage principal, enabling lenders to offer qualified veterans lower than market interest rates.

For example, the current VA rate is 11.5 percent. In addition, these qualified veterans are granted no down payment loans or loans at 100 percent of the value of the property. An eligible veteran may purchase a home through a private lender, and the VA

guarantees to pay 60 percent of the loan amount, but not more than $27,500.

From a broad perspective, Mr. Chairman, the program has been successful here in the State of New Jersey. I note with particular pleasure the success the VA has had in our State with the disposal of inventoried properties. I hope the other VA regional offices will be able to achieve some of the successes of our Newark office within their own jurisdictions.

This, in my view, is the best means of addressing the current and projected shortfall in the direct loan revolving fund.

From the available evidence, Mr. Chairman, the foreclosure rate in New Jersey seems to be on par with the national average; as the effects of the recent recession continue to subside, it is my hope that this rate will come down even more.

In an effort to help those veterans who do face foreclosure, I have introduced H.R. 2135, which would enable veterans to borrow up to $8,400 to make payments and thus avoid the trauma of foreclosure. A similar bill, I would point out, was introduced last year.

Mr. Chairman, I do have several concerns regarding the operation of the home loan program in the State. The rate of new loan originations in New Jersey is very low. Perhaps some of our expert witnesses this evening will be able to share their insights as to the reasons behind this apparent under-utilization of the program.

Of even greater concern to me, Mr. Chairman, is a recent investigation by the VA office of the Inspector General indicating various types of fraud, which have been perpetrated against the VA Home Loan Program in the State. In some instances, underwriting criteria appears to have led to the abuses in the program.

Because of the very nature of the VA Home Loan Program, the underwriting standards are necessarily flexible. However, for the sake of the individual veterans as well as the viability of the entire program, every effort must be made to ensure that the veteran borrower has the ability to assume and discharge the financial obligation of a home loan.

I fear that in many instances, veterans have been approved for new loans who may not be able to bear the financial burden which accompanies a mortgage. In these cases, Mr. Chairman, we are doing them no favor by permitting them to over-extend themselves financially.

When such a loan goes into default, not only does the VA take a loss, but the veteran's credit rating will be severely damaged.

I would like to personally thank the VA office of the Inspector General for permitting a representative to outline the types of fraud. He will be here and will make a presentation.

Once again, I would like to thank all of the witnesses who are here this evening and look forward to their testimony.

Mr. SHELBY. Thank you, Congressman Smith.

Our first witness today will be Elmer De Ritter, loan guaranty officer for the Veterans' Administration.

Mr. De Ritter, you want to take your seat at the table? Your written testimony, will be made part of the record in its entirety. You may orally sum up any comments you might have.

STATEMENT OF ELMER DE RITTER, JR., LOAN GUARANTY OFFICER, VETERANS' ADMINISTRATION REGIONAL OFFICE, NEWARK, NJ

Mr. DE RITTER. Mr. Chairman, Congressman Smith, it is a pleasure to appear before you this evening and discuss the VA Home Loan Program in the State of New Jersey.

Certain factors in the State of New Jersey have had an impact on the VA Home Loan Program. The extension of authority of the New Jersey Department of Banking over all mortgage bankers in the State of New Jersey, to their regulations so that all mortgage companies are now supervised lenders, and, therefore, possess the automatic authority to make loans on an automatic basis.

We have also worked very closely with the Department of Banking concerning financial consultants who were charging veterans exorbitant fees for merely referring a refinanced loan to a lending institution in violation of New Jersey State and Federal law.

Two attorneys from our district counsel's office were appointed special U.S. attorneys for purposes of conducting foreclosures of our vendee loans. I think this is the first in New Jersey and in the country, and they also process chapter 13 bankruptcy cases, which have caused a lot of problems.

This has helped relieve the severe backlog in the civil division of the U.S. Attorneys Office.

Addressing the issue of the low volume of loan originations, Mr. Chairman, VA loan activity in the State of New Jersey has shown a steady decline over the past few years. Appendix A attached to my written statement shows the number of loan applications received and loans closed for our office for fiscal years 1982 through 1985.

In reviewing the statistics, several factors must be considered. A large pent-up demand developed during the recession of 1980 to 1982, resulting in much of the loan activity in 1983. Also, many refinance applications were received in 1983 because of the high interest rates that existed in 1982, 1980 to 1982.

This data indicates that the VA loan volume for the purchase of homes in New Jersey has been low over a period of years, in spite of the high level of real estate activity that has existed in the State of New Jersey.

Several factors can be identified which have impacted on the volume of loan applications in this State, none of which is solely responsible for the decline in volume.

First, the high and escalating prices of homes in New Jersey have prevented many people from purchasing a home. Secondly, the number of cases in which the VA has refused to specify an amount for conveyance of a foreclosed property has increased from 18 in fiscal year 1982 to 53 in 1985, a substantial increase.

Third, the 1 percent funding fee has increased the cost of VA financing and thus priced many buyers out of the market. Fourth, the availability of the 5 percent down payment program for conventional loans has made low down payment loans widely available, and what I regard as the most critical is the seller resistance to the payment of discount points, contributes to their unwillingness to use the VA program. They are looking at 5 or 6 discount

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points in a VA loan and have to then pay that up front and lose that as part of the consideration they are going to receive for the property. This makes for a lack of desire to use our program, and especially when there are many alternative buyers available; they tend to use conventional loans and other financing.

Recent restrictions on the VA—on the 5 percent down payment loans and changes in underwriting criteria will make conventional mortgage money less available to veterans as will the sharp increases in the private mortgage insurance premiums that has recently occurred

Consequently, it is important that the loan guaranty program be attractive to program participants to ensure the availability of VA guaranteed mortgages to the veterans of this State, while at the same time reflecting valid underwriting standards as we review the loans.

Turning to the area of property sales, Mr. Chairman, increasing emphasis on property sales has resulted in a decrease in our property inventory. During fiscal year 1985, we acquired 606 properties and we sold 711, over 40 percent were cash sales.

Several of the techniques that have enabled us to accelerate our sales and reduce our inventory are as follows:

1. Realistic pricing of the property on the initial listing has allowed us to sell our properties more promptly. This is probably the most significant factor. A realistic price when we first go into it and the properties tend to move very quickly.

2. The availability of properties is widely publicized. We do extensive advertising in large and small newspapers throughout the State, and our sales listings, which is sent to over 2,000 realtors, usually has a cover sheet highlighting sales program changes and other information about the program.

We have added 342 realtors to our mailing list in the past year alone.

3. During the past year, we have instituted a procedure to have the realtors' commission check available at the regional office rather than waiting for it to be sent from the Treasury 2 or more weeks later. That has encouraged the broker to submit offers.

4. Limiting repairs to those that are absolutely necessary so that VA home properties can be marketed as soon as possible.

5. The opportunity to purchase for cash, 10 percent below list price, has sparked investor interest also as well as individual purchases.

6. The increased use of for sale signs on VA owned properties has also gotten a lot of interest. Many calls come in. I have seen the signs. Please, when is it coming on the market?

One result of our efforts to aggressively sell VA owned properties was the reduction in the average holding time for each property from 11.9 months in fiscal year 1982 to 7.1 months in 1985. Thereby reducing the burden of monthly carrying charges for management fees, real estate taxes, and uncollected interest.

Mr. Chairman, we still have several problems in disposing of our property inventory. The filing of chapter 13 bankruptcies, both before and after loan termination, delays our acquiring titles and the marketing of the property and substantially increase our loss per property.

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Secondly, foreclosures of vendee mortgages by the U.S. Attorney has typically taken 4 to 5 years to complete. In order to expedite these foreclosures, arrangements were made to have two of our district counsel attorneys appointed as special assistants.

Eviction of former owners has become also increasingly difficult with the availability of chapter 13.

Turning now to fraudulent practices in New Jersey, I will have to defer a large part to the Inspector General, but I can give you some highlights as to what we have found and based on cases that we have referred to the Inspector General. We have become more zealous in finding these things and more aware of what kind of things are going on, so we can find them.

The methods used to perpetrate fraud are widely varied. Fraud can involve such things as misrepresentation of the number of dependents and marital status; failure to occupy the property; omission of information on previous loans in order to obtain an improper certificate of eligibility; fraudulent W-2s and 1040s; giving a false address for an employer resulting in invalid employment verifications, fraudulent deposit verifications and credit reports that do not accurately portray the veteran's credit history and improperly inflated appraisal values.

The most common type of fraud that we have uncovered at the Regional Office involves the manipulation of the Social Security number, when obtaining a credit report. By reversing or changing a single digit, the credit report often shows no record of credit for a particular individual who, in fact, may have a poor credit history, and that— just one digit, make a 7 a 9 and it is very difficult to see that with the eye when you are looking at a whole loan application, and this kind of thing flies through very easily, unless you are fully aware of it.

The scope of these type of frauds in terms of the number of participants involved also varies widely. Some, such as the failure to disclose all dependents, only involves some times the loan applicant or maybe is prompted by the realtor or loan solicitor that did not see the six other children they have in the back room, when the person goes out to solicit a loan.

Appraisal fraud normally involves at least two parties with one party influencing the appraiser to obtain an inflated value. Fraud involving credit reports can be perpetrated by credit reporting companies, realtors, loan solicitors, loan processors, branch managers of mortgage companies, etc., often with several persons acting in concert to achieve the desired result.

Some conspiracies to originate loans based on false data can be so widespread as to encompass not only the lender, the realtor, the loan applicant, and also accountants and third parties posing as employers.

Mr. Chairman, at the Newark regional office, we use several detection techniques to combat these practices.

1. VA records are used to confirm social security numbers, verify compensation payments, detect previous home loans and other indebtedness to the VA.

2. This is very important. Our in-house credit terminal is used extensively to obtain back-up credit reports, especially when an inconsistency in the social security number or other data is evident.

Back-up credit reports also reveal such things as prior foreclosures and judgments, child support obligations, amounts of debts, detailed payment history, and other data which the submitted report may not have disclosed.

The credit report from the terminal also highlights variations in social security number on record with the credit reporting agency.

3. A 10 percent post-audit review is conducted on employment and deposit verifications.

4. We use an IBM personal computer to analyze defaults occurring in the first 3 months in order to detect patterns involving the same lenders, realtors, credit companies and reasons for default. This is a new program that we developed recently. We get a printout from the computer, which shows how many are in default and we put it on a program and can compare patterns there.

5. The close working relationship has been established between the regional office personnel and those from the VA's Office of Inspector General and the FBI.

6. Our loan examiners and loan servicers have become more aware of the fraudulent techniques and their detection.

Using these techniques, we have made numerous referrals of fraudulent practices to the VA's Office of Inspector General. We are contemplating the use of a computer to assist us in making assignments of appraisals so that through the use of various sort routines, we can detect patterns involving the correlation of lenders and appraisers and inflated values.

At present, we have 64 fee appraisers and 25 management brokers who are independent contractors and have no access to our in-house records. The recent aggressive investigation and the results from it should have many beneficial effects. Program participants are now very much aware of the possible penalties resulting from the wrongdoing, and VA employees also see the results of the careful review and detection and referrals of suspected fraud and are encouraged to continue looking for these type of activities.

Mr. Chairman, this concludes my statement, and I will be pleased to answer any questions you or members of the Committee may have.

[Statement of Mr. De Ritter appears on p. 41.]

Mr. SHELBY. Thank you.

I have several questions.

How many foreclosed properties do you have on hand?

Mr. DE RITTER. We have 719 properties actually on hand at this time.

Mr. SHELBY. Is that in the whole State of New Jersey?

Mr. DE RITTER. In the State of New Jersey, right.

Mr. SHELBY. And, you have held them for an average time of about 7 months?

Mr. DE RITTER. 7.1 months, right.

Mr. SHELBY. But you have reduced that.

Mr. DE RITTER. Right. Previously, it was 11.9 almost a year.

Mr. SHELBY. When you are realistically trying to price the properties so you can move them, are you coming in and reappraising them after the foreclosure and acquirement of the property, or how are you doing it?

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Mr. DE RITTER. Prior to the foreclosure sale, we get an appraisal of the property by one of our fee appraisers.

Mr. SHELBY. Okay.

Mr. DE RITTER. Then, we have one of our property management representatives go out and take another look, and we also get an actual appraisal from the management broker, who is out there in the field and knows that specific area also, and those three opinions of value are reviewed and either I or my assistant has to sign off on—

Mr. SHELBY. Have you found out that the sooner you market a property, even if you discount it to some extent that you are better off in the long run?

Mr. DE RITTER. That is what we have found. We have been selling. We are getting many more offers, that generates cash offers, and the quality of the purchaser that we select as the best offeror, if it is not a cash offeror, tends to be higher.

So, the property, when we sell it with VA financing, goes into our vendee portfolio, and it stays there. It does not come back into property management.

Mr. SHELBY. What would be your judgment as to the value of the portfolio that you are carrying? In other words, the houses that you have in inventory in the State of New Jersey.

Mr. DE RITTER. We have approximately 2,200 properties in our vendee portfolio right now. In our property management inventory, I would say the average is in the neighborhood of $35,000 to $40,000.

Mr. SHELBY. Times what?

Mr. DE RITTER. Times 700 approximately.

Mr. SHELBY. A lot of money.

Mr. DE RITTER. A lot of money.

Mr. SHELBY. Has the economic upturn of the last several years helped you all out?

Mr. DE RITTER. I think it has helped us move some of the properties. There are more buyers out there. They can get outside financing at a reasonable rate.

Mr. SHELBY. The gentleman from New Jersey, Mr. Smith, and I have had numerous hearings in Washington. We continue to be concerned about the continuous property build-up. The inventory that the VA was carrying was approaching $1 billion in value, and we are concerned about how to move the properties, how to make the revolving fund solvent just like you are.

Mr. DE RITTER. Right.

Mr. SHELBY. But you have every day workings with it, and, of course, we do not. That is one reason for these field hearings and your recommendations. Realistic appraisals always help.

Mr. DE RITTER. That helps, because we have, in the past, had times where we were inflated compared to the market. We are too high, maybe ten percent higher on average, and that just curtails sales very severely.

Mr. SHELBY. Sooner or later, the market forces will work.

Mr. DE RITTER. Oh, yes. They will.

Mr. SHELBY. You have touched on some important aspects. As you and others have stated, every time you encounter fraudulent activities, it hurts the program.

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Mr. DE RITTER. Absolutely.

Mr. SHELBY. As you know, OMB has been trying to basically dismantle the VA loan guaranty program. Enactment of a 5 percent origination fee would basically dismantle it, would it not?

Mr. DE RITTER. Absolutely.

Mr. SHELBY. Tat is what the Administration is trying to do.

In the fraud situation which you discussed, is there data that you do not disclose to fee appraisers?

Mr. DE RITTER. Yes. Fee appraisers—

Mr. SHELBY. How do you do that?

Mr. DE RITTER. They really have no access to our files. Once they submit their report, it is ours and they do not get it back, they do not get to see any other reports that come in.

Mr. SHELBY. How many fee appraisers do you have in the State?

Mr. DE RITTER. We have 25 fee appraisers.

Mr. SHELBY. Do you supervise them in some way?

Mr. DE RITTER. Excuse me. We have 64 fee appraisers.

Mr. SHELBY. Do you scrutinize their work?

Mr. DE RITTER. Yes. We do a 10 percent field review on their reports.

Mr. SHELBY. At random?

Mr. DE RITTER. At random.

Mr. SHELBY. Okay.

Mr. DE RITTER. Different fee appraisers and different areas.

Mr. SHELBY. Have you found overall that your fee appraisers are pretty much in line, honest and doing a good job?

Mr. DE RITTER. From what I can see, yes.

Mr. SHELBY. Have you suspended any of them?

Mr. DE RITTER. We have suspended one, who was indicted and convicted.

Mr. SHELBY. Okay. Have you used the computer in any way to help you correlate a lot of the data that is fed into the VA program on the loan applications?

Mr. DE RITTER. Yes, we have. We are looking at those cases that go into default within 3 months because these tend to be the cases that are most likely to involve some kind of fraud, and—

Mr. SHELBY. Are there some other ways that you could detect, like an early warning signal, prior to 3 months?

Mr. DE RITTER. That is the earliest we get a notice from the holder that the loan is in default. We get the notice of default, comes in when the loan is in default.

Mr. SHELBY. Who sends that notice? Is this a VA regulation?

Mr. DE RITTER. Yes. It is a VA regulation that a holder must notify us when it hits the 3 month point.

Mr. SHELBY. Three months.

Mr. DE RITTER. Right.

Mr. SHELBY. What about 2 months? Would that help some, maybe help nurse the loan holder, help cut down on the VA losses? I do not say that you should foreclose on this man's home in 2 months, but if I had somebody default after 2 months, it would sort of put out a red flag, would it not?

Mr. DE RITTER. Oh, yeah.

Mr. SHELBY. Something could be wrong.

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Mr. DE RITTER. Oh, yeah. When it occurs within 2 months, it does—that certainly indicates that something is wrong, even within three months, it indicates something is wrong. To look at a default every time it is in two months default, though, I think, would probably overwhelm us with paperwork.

What we try to do, when a notice of default comes in, we have someone who makes a phone call to that veteran and—

Mr. SHELBY. But that is after 3 months.

Mr. DE RITTER. That is after 3 months.

Mr. SHELBY. What we are interested in, and I know you are, too, is making this program work. The less it costs, the better and the more efficient it becomes, and the better off we all are.

Mr. DE RITTER. That is true.

Mr. SHELBY. Including the veteran.

Mr. DE RITTER. Right.

Mr. SHELBY. If you have got a problem loan and if those early warning signals are there at the end of 6 weeks or 2 months, maybe some counselling time or some notice to them would be helpful.

Mr. DE RITTER. Yes.

Mr. SHELBY. I realize that this might create additional paperwork, but not necessarily any more than that created by foreclosure proceedings.

Mr. DE RITTER. See, when we do get—when we get the notice from the holder, it has specific information as to how many phone calls were made, how many letters were written, how many direct contacts they have had with the veteran, and we have to rate each one of those servicing actions. If we feel that the holder has done an excellent job in servicing that loan, we give it a certain rating. If it is a poor job, we give it a certain rating, and then, monthly, we get a listing showing the compilation of all the ratings we have given to a particular holder, and if we find that holder is not servicing loans timely or with adequate quality, then we start working on that holder to encourage them to do a better job.

Mr. SHELBY. I know you have guidelines that you take into consideration when you approve a loan.

Mr. DE RITTER. Right.

Mr. SHELBY. Oftentimes, at the time of approval, do you just give the benefit of the doubt to the veteran? If you approve a loan for me and my credit report is unsatisfactory you are doing me a disservice, even as a veteran, to approve that loan, are you not?

Mr. DE RITTER. Absolutely. We reject a goodly number of loans, and we take the pressure that goes with the rejection. There is a lot of people with a lot of money involved, and we try to underwrite with our heads and not totally with the heart. We are the Veterans' Administration. We are here to help veterans, and we will do so in a specific case, but as you indicate, putting a veteran in a house that he cannot afford to carry or is going to go into default is not helping the veteran, and we try to underwrite realistically.

The recent guidelines that came out that tighten up on underwriting have certainly been applied in New Jersey.

Mr. SHELBY. The Chair recognizes the gentleman from New Jersey.

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Mr. SMITH. Thank you, Mr. Chairman.

Mr. De Ritter, I have a few questions.

First of all, I am sure you saw the Inspector General's report of September 30, 1985, in which several recommendations were made to the Chief Benefits Director, for implementation throughout the entire system.

The first recommendation, generally speaking, was revising the requirements for conducting desk and field reviews of fee appraisal reports and the second was ensuring that staff appraisers fully document increases to CRVs and complete an appraisal report if the increase is 10 percent or greater than the fee appraiser's estimate.

I was wondering if you could tell us whether or not that—those recommendations and specifics have been promulgated down to your level at this point.

Mr. DE RITTER. I have not seen those recommendations.

Mr. SMITH. Okay. Then, hopefully, they will be coming along shortly because there were several recommendations made in the report, including such things as requesting the fee appraisers to make current photographs of three properties that could be used as comparables, and there were several very specific recommendations being made.

To your knowledge, has the Chief Benefit Director sent in, say, within the last year, any updated guidelines for you to follow?

Mr. DE RITTER. Offhand, I cannot think of a specific regulation.

Mr. SMITH. This is more or less a final product, and I know during the process, there were several recommendations made earlier on.

Mr. DE RITTER. Yes. We recently had a loan guaranty officer conference, and these types of things were discussed, the three photographs and that tighter review, but as far as the specific regulation that we must do certain specific things, so far, we have not seen that.

Mr. SMITH. As these guidelines come across your office, how long do you think it will take to implement them?

Mr. DE RITTER. Very quickly.

Mr. SMITH. Very quickly?

Mr. DE RITTER. Yes. No problem.

Mr. SMITH. When you were answering the chairman a moment ago, you indicated that some new procedures are being followed relative to checking social security numbers and other kinds of data as to the credit rating as well as all personal background on an individual veteran.

How long has that been going on?

Mr. DE RITTER. That has been going on approximately a year and a half, but we have really been aggressive. We have had the credit terminal approximately that length of time, and we have been using it to the fullest since then. Prior to that, we did not have a credit terminal in-house, so we could not just go over to the credit terminal and ask what do we have on record on this particular veteran. But, since we have gotten it, it has been a Godsend.

Mr. SMITH. Are your counterparts elsewhere following similar procedures?

Mr. DE RITTER. To my knowledge, they are, yes.

Mr. SMITH. Could you tell us what is being done to speed the sale of foreclosed properties? You did indicate that you have cut the average holding time to around 7.1 months.

Is there anything else that you can do?

Mr. DE RITTER. I think this use of for sale signs has helped, also. The things that we are struggling with are adversely occupied properties. We have a goodly number of properties adversely occupied, and it is very difficult to get the courts to issue writs of possession that will allow us to evict former owners from the properties. This is a tough area to deal with.

Once we do get it, they do move, a lot of the 7.1 months is taken up by eviction procedures—

Mr. SHELBY. Will the gentleman yield?

Mr. SMITH. I yield.

Mr. SHELBY. Just following on that line, does the U.S. Attorneys Office handle those types of cases for you? Do you have fee attorneys?

Mr. DE RITTER. In most cases, fee attorneys handle those or the foreclosing attorney, who has conducted the foreclosure.

Mr. SHELBY. Have you found that that is a good arrangement, better than the working with the U.S. Attorneys whose priority might be in some other area?

Mr. DE RITTER. That is a very good statement. His priority may be in some other area. Yes, we have had—

Mr. SHELBY. Have you found that the cost of the fee attorneys have been competitive?

Mr. DE RITTER. Oh, yes. I think the current fee is a $165 to conduct an eviction, and just holding the property one extra month, you are talking about $500 to a $1,000.

Mr. SHELBY. That sounds very reasonable. You monitor the attorneys that do this?

Mr. DE RITTER. Yes.

Mr. SHELBY. And, you set the fees?

Mr. DE RITTER. We set the fees, and they do a good job. The ones that do not do a good job can be dismissed very easily.

Mr. SHELBY. Suspended like the others.

Mr. DE RITTER. Right.

Mr. SHELBY. What do you pay the average payment for a foreclosure uncontested, not a lot of trouble with foreclosure?

Mr. DE RITTER. The foreclosures, right now, the foreclosures are—

Mr. SHELBY. Attorneys fees.

Mr. DE RITTER. Attorneys fees on a G.I. loan, you know, we pay $350.

Mr. SHELBY. That is reasonable.

Mr. DE RITTER. And, we pay $50 additional if there is a bankruptcy involved for every court appearance that the attorney must make.

Mr. SHELBY. Sure. Thank you for yielding.

Mr. SMITH. Mr. De Ritter, can you tell us more about the financial consultants that you referred to in your opening statement, at least in your prepared text, and whether or not those individuals have been prosecuted or are in the process of being prosecuted?

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Mr. DE RITTER. Okay. The financial consultants, as far as what they did, they would find veterans who are in default on their mortgage, they advertise in TV guides and various newspapers, they would then get the veterans to come into their office or they would visit the veteran in his home. They would take a loan application, refer it to a lender, and then they would be charged for that service, which was really getting the person to walk in the door and take an application.

They were charging anywhere from $800 to $4,000. Then, the veteran would still have his regular closing costs and all the other costs of originating a loan on top of that. So, it was very, very costly to the veteran.

As far as prosecution, the Attorney General of the State of New Jersey brought suit against one financial consultant. They were successful in obtaining a judgment for $94,500 against that consultant, who immediately went out of business, and others shortly thereafter went out of business. We worked very closely with the Department of Banking, picking up things in our loan applications and referring that, and they were receptive to those facts and took the action and worked with the Attorney General to bring suit. Very successful.

Mr. SMITH. Not to paint a distorted picture of what is occurring, could you give this committee some indication of how widespread this practice and the other practices you have referred to before, like the social security number manipulation, and if I read your testimony correctly, you indicate that some of the recent prosecutions, particularly in Camden, may have had a chilling effect on some of these activities. The silver lining may be that the word is out to clean up the act?

Mr. DE RITTER. Okay. That definitely is true. The lenders are very, very concerned about their reputations. They feel it is only a few people that are involved. The realtors, lenders that may be involved, and they are, I think, concerned about cleaning house, if that is the proper terminology.

Mr. SMITH. Is it possible to give a percentage on what we are talking about?

Mr. DE RITTER. As far as the—

Mr. SMITH. Number of those who would be engaged in that practice.

Mr. DE RITTER. Okay. As far as the widespread of this consulting, that basically, as far as we know, is only a phenomenon in Pennsylvania and New Jersey. Concentrated in South Jersey and across the river in Pennsylvania.

I think it is pretty much contained. I do not know what the situation is in Pennsylvania at this time. As far as the percentage of lenders engaged in fraudulent practices, I would have to say 2 to 3 percent, under 5, for sure.

Mr. SMITH. Okay. Thank you.

Mr. SHELBY. I would like to ask several follow-up questions.

Let us get into financial consultants now. You are talking about people who advertise themselves as financial consultants to help a veteran when he is in financial trouble?

Mr. DE RITTER. Right.

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Mr. SHELBY. And, they would charge fees to the veteran to advise him on what to do with his loan and everything?

Mr. DE RITTER. That was the theory, that they would bring them in and help them work out his credit and do a lot of things by way of advise that a real financial consultant would do.

Mr. SHELBY. What were they really doing? Were they taking over the property in any way?

Mr. DE RITTER. No, they were not. They were just taking a loan application and funneling that to a legitimate mortgage company.

Mr. SHELBY. This was after someone had already brought a home?

Mr. DE RITTER. They had bought a home, gotten into financial difficulty, and then looked for a refinance loan. In getting this refinance loan, basically, all they were doing was processing them through to get the refinance loan. They had their connections with a lender or two or three, and they would take the loan application and bring it to the lender and say process the loan.

Veterans who had problems that could have been resolved without a refinance loan, some were steered inappropriately to one, others, good-bye, we do not want to have anything further to do with you, we will take $250 for our services.

Mr. SHELBY. Have you had a number of cases like this?

Mr. DE RITTER. We had quite a large number, and as we detected them, we kept putting the pressure on and referring to the banking commission and working with the banking commission in New Jersey. They brought suit and they were eliminated. To our knowledge, right now, there are none operating in New Jersey.

Mr. SHELBY. FBI been involved in some of these?

Mr. DE RITTER. Not in this.

Mr. SHELBY. Not in this.

Mr. DE RITTER. No, not at all.

Mr. SHELBY. Have you had areas of skimming, as we call it, here in Jersey, like we have had in California and Colorado and some areas?

Mr. DE RITTER. We, over the last 8 or 10 years, we have had two or three episodes of equity skimming. There is one, I think, under investigation at this time.

Mr. SHELBY. Okay.

Mr. DE RITTER. We have referred some cases to the FBI. The other two, I think, one person may have vanished from the scene. So, there is nothing that can be done by way of prosecution.

Mr. SHELBY. Thank you.

Mr. SMITH. Will the gentleman yield?

Mr. SHELBY. Yes, I will be glad to.

Mr. SMITH. I do have one final question, Mr. De Ritter.

In the Inspector General's report, it is stated relative to the Camden situation that during the various interviews and questioning of those involved as well as realtors and real estate investors and developers, that the use of VA fee appraisers was such that when they were dealing with those people, they knew they would get a better deal, and that it caused them less problems, to quote from the report, because of the methods they were using, the as is versus the prepared message.

I wonder if you could tell the committee whether or not because of this investigation, there have been any change in the way that the appraisers do business? Whether or not they still use the "as is" method, for instance?

Mr. DE RITTER. Basically, they use as an "as is" method, yes.

Mr. SMITH. Okay. Is there anything in the works to change that, or to modify it?

Mr. DE RITTER. To my knowledge, there is not.

Mr. SMITH. Do you think there should be?

Mr. DE RITTER. No. Basically, we are looking at a property. We look at where it is now, what condition it is in, and we are—our fee appraiser puts the value on it. That is reviewed by a staff appraiser who, if there is a problem or an inconsistency in the report, will contact that fee appraiser and a change will be made.

Many appraisals are—the ultimate value is changed based on our in-house review of the fee appraiser's appraisal.

Mr. SMITH. Could you just tell us, do you have any other recommendations for the committee as to how, through legislation, we might improve the situation for the VA home loan program?

Mr. DE RITTER. The only recommendation I would make, I think, is with regard to what I indicated was seller resistance. To the extent that a negotiated interest rate and negotiated discount would be the policy of the VA, I think this would allow the veteran to get a VA loan.

Right now, many veterans are just being denied a loan, and the main benefit of the VA loan is the no down payment, and it is tough for many veterans to accumulate the sufficient monies to get a conventional loan, particularly now when we are looking at a 10 percent down payment, Fannie Mae loan. It is a lot more difficult than 5 percent, particularly with housing prices in New Jersey being what they are.

I think this would be a highly beneficial. I think the veteran, in most cases, is already paying some points, it would put the veteran in a negotiating position. He is better off getting a VA loan and paying 1 or 2 points than not getting the loan at all and not getting the house and the benefits of home ownership.

Mr. SMITH. And, without any changes in this area, you would project that the number of VA home loan mortgages would continue to decline?

Mr. DE RITTER. Yes, indeed.

Mr. SMITH. Thank you.

Mr. SHELBY. Thank you, Mr. De Ritter.

Our next witness will be Mr. Bob Hincken, Assistant Inspector General of the Veterans' Administration, Washington, D.C., and he will be accompanied by Mr. Vernon Oakum, Assistant Deputy Inspector General.

We appreciate you being with us tonight. Your written testimony, will be made part of the record. Any comments you want to make regarding this would be appreciated.

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STATEMENT OF BOB HINCKEN, ASSISTANT INSPECTOR GENERAL, VETERANS' ADMINISTRATION, WASHINGTON, D.C.; ACCOMPANIED BY VERNON OAKUM, DEPUTY ASSISTANT INSPECTOR GENERAL

Mr. HINCKEN. Thank you, sir.

Mr. Chairman and members of the committee, I am pleased to be here this evening to discuss our investigations regarding fraud perpetrated in Camden and Willingboro, NJ, against the VA Guaranty Home Loan Program.

As this matter is still sensitive due to investigative and legal proceedings that are in progress, I will, out of necessity, limit my presentation to general non-specific information.

Mr. SHELBY. We understand that.

Mr. HINCKEN. Thank you, sir. The purpose of the VA's Home Loan Guaranty Program is to facilitate the extension of mortgage credit on favorable terms by private lenders to eligible veterans. In the event of default, the VA guaranty protects lenders against losses up to a maximum of the lesser of 60 percent of the mortgage or $27,500. When a VA guaranteed loan goes into foreclosure, the VA pays the lender's claim. The lender has the option of conveying the property under certain circumstances.

In the past, the VA has acquired the properties in about 95 percent of the cases and resold them to recoup some of the losses. The VA incurs substantial costs in purchasing, managing, improving and selling these properties. As a result, any fraudulent activity that culminates in defaults of VA guaranteed properties causes significant losses to the VA.

In early 1983, preliminary inquiries were initiated in Camden, NJ, based on information provided by a local investigative reporter. These inquiries determined that there appeared to be a pattern of certain real estate firms and mortgage companies involved in numerous real estate transactions that resulted in defaults and foreclosures.

As a result, a formal joint investigation was begun in 1984, involving the Federal Bureau of Investigation, the Department of Housing and Urban Development Office of the Inspector General, and the Veterans' Administration Office of the Inspector General.

In 1982 and 1983, in the Camden area, HUD sold in excess of 800 homes utilizing the bulk sales method, of which approximately 500 were later appraised by VA fee appraisers, but then processed with FHA insured mortgages.

During the investigation, approximately 50 or 60 of these properties were reappraised by VA and HUD staff appraisers, and in most cases, it was discovered that the original appraisals were highly inflated and in 10 cases, the properties were totally worthless.

During the investigation, several realtors, real estate investors and developers were interviewed and questioned concerning the use of VA fee appraisers, when it knew the property was going to be sold utilizing FHA insured mortgages.

They all stated this was so because the VA appraisal system was easier and caused them less problems. One realtor has stated that the main reason he favored the VA appraisal system was that if

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the appraisal was converted to a HUD insured mortgage, there was very little chance of the property receiving a VA staff review. In the 10 years he has been in the realty business in Camden, he had never seen such a review accomplished.

Additionally, a review of HUD and VA loan guaranty records resulted in the identification of numerous targets possibly being involved in a conspiracy to defraud both HUD and the VA loan guaranty program. The targets were realtors, mortgage companies, title companies, fee appraisers, and lenders.

In the Camden, NJ, area, a substantial number of HUD properties and several VA guaranty loans were initially identified as being involved in the fraudulent activities.

It was determined that about one-third of these loans were guaranteed based on VA fee basis appraisals. All of the VA guaranteed loans had gone into foreclosure, and it was determined that all had initially been sold by the same realty company.

A separate joint investigation was also initiated in Willingboro, NJ, after a selection of VA home loan guaranty properties in foreclosure revealed evidence of false employment and income data relative to original purchases by veterans. Three real estate firms were initially selected as targets, and additional targets were identified as the investigations progressed.

These investigations uncovered several types of fraudulent schemes that have a direct impact on the integrity of the VA's loan guaranty program and which, in some instances, are victimizing veterans participating in the program.

In one scheme, a real estate broker recruited a veteran to buy a home using his VA loan guaranty eligibility. Because the veteran could not qualify to buy the home due to insufficient income and credit problems, he was advised by the broker to falsify his employment, inflate his income and utilize a false social security number to obtain a favorable credit report. The broker made the first 3 monthly mortgage payments in behalf of the veteran before the loan went into default. The VA was subsequently forced to pay the guaranty.

In another scheme, a real estate company purchased a house from HUD at a very low price. The broker talked a veteran friend into using his VA eligibility to buy the house on paper only as a "straw buyer". The broker paid a contact in a local mortgage company to arrange for a specific VA fee appraiser to do the appraisal on the house. The broker subsequently bribed the appraiser and got a highly inflated appraisal. The broker then let the loan go into default and the VA had to pay the guaranty at a considerable loss.

In addition, several cases involved real estate brokers who solicited veteran home buyers and convinced them that the payments on homes would be low enough for them to afford. The broker had the veterans sign blank application forms and subsequently submitted these forms after falsifying employment and credit information. When the veterans realized what had happened and wanted to cancel the purchase, the broker either threatened them by telling them they could be sued for backing out of the deal or induced them into going along with the scheme by convincing them that they could sell the house at a large profit.

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Criminal prosecutions to date that have resulted from the joint investigations in Camden and Willingboro include 10 convictions of individuals involved in loan guaranty fraud schemes. Among the individuals convicted were senior officials of an investment company, an official of a large mortgage firm, members of a real estate firm and a VA fee appraiser. In addition, seven individuals have been recently indicted or have had criminal charges filed against them and are facing trial. Our investigations are continuing, and additional criminal and civil actions are anticipated.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions not involving sensitive information regarding on-going investigations you or other members of the committee may have.

[Statement of Mr. Hincken appears on p. 52.]

Mr. SHELBY. What steps have you recommended to the loan guaranty service, if any?

Mr. HINCKEN. In the State of New Jersey, sir, I believe we have had extensive dealings with the home loan office, and I think you are seeing some of the results on a first-hand basis.

Across the board nationally, as the investigations evolve and we see information that would be of use to the program people, we prepare a management implication report.

To date, we have forwarded one to the Department. We are currently working on several other ideas and recommendations for the program.

Mr. SHELBY. Is the fraudulent activity that you have outlined here strictly isolated to New Jersey, or do you have indications of similar deals around the country?

Mr. HINCKEN. I wish it were limited to New Jersey, sir. We are looking, using the targeting process we have developed over the last 18 months, at foreclosure rates in several States, and, then, going in and looking at the realtors, the brokers, and matching up and seeing if we do have other problems. I suspect we do.

Mr. SHELBY. How much dollar-wise is involved, just roughly speaking, in the New Jersey schemes?

Mr. HINCKEN. That is not finished yet, sir. It would be—I would say in excess of $1 million.

Mr. SHELBY. How much?

Mr. HINCKEN. In excess of $1 million.

Mr. SHELBY. A million dollars. Were some of these deals in New Jersey conspiracies between builders or sellers and people who finance, or can't you discuss this?

Mr. HINCKEN. I think we are better off leaving that alone.

Mr. SHELBY. Okay.

Mr. HINCKEN. If you do not mind, sir.

Mr. SHELBY. Since you have been investigating here in New Jersey, have you been investigating the appraisers, too?

Mr. HINCKEN. Yes, sir. We have.

Mr. SHELBY. Are the appraisal situations improving in New Jersey since you have been doing your investigation?

Mr. HINCKEN. I would think that the conviction of one appraiser has kind of—

Mr. SHELBY. Sending the right message.

Mr. HINCKEN. I think they have got the picture, yes, sir.

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Mr. SHELBY. Okay. The gentleman from New Jersey, do you have any questions?

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Hincken, welcome to the committee and thank you for coming up from Washington to be with us this evening.

Prior to 1983, when the investigative reporter provided the information that led to this investigation, was the Inspector General or any of the offices of Government looking in this direction for fraud, and had they found any anywhere in the United States?

Mr. HINCKEN. I can only speak to the IG, sir.

Mr. SMITH. Okay.

Mr. HINCKEN. I am sure we have always had some housing problems in certain parts of the country, of a lower level, but, prior to that time, no, we had not concentrated our efforts in New Jersey.

Mr. SMITH. Okay. So, the information was crucial then to—

Mr. HINCKEN. Yes, sir. That is correct.

Mr. SMITH [continuing]. Bringing about the investigation and the conviction of at least 10 people thus far?

Mr. HINCKEN. Right. As I stated earlier, Mr. Smith, my office and the investigators who have been assigned in this area have a very close working relationship with the regional office, and I think they are a little bit ahead of the rest of the country. The presentation you heard tonight is the way we would like to go.

Mr. SMITH. In terms of matching up realtors and others who demonstrate a pattern of foreclosures in terms of their inventory, how long will it take to have the computer software on line to really implement this program, to match up all the potential perpetrators?

Mr. HINCKEN. Sir, we do not have the borker data in any computer banks. We obtain this data from the file. We then down load from the main frame into our offices.

We will take a massive file, look at it, down load what we need, add brokers to it and carry it with us.

Mr. SMITH. Okay.

Mr. HINCKEN. But we do that internally. I assume the regional office has the same capability, but I cannot address that, sir.

Mr. SMITH. Do you feel that you have sufficient resources to implement this job successfully and effectively?

Mr. HINCKEN. I can handle New Jersey, yes, sir.

Mr. SMITH. Okay. Are there reports emanating from other States in a similar magnitude as we have had in Camden?

Mr. HINCKEN. We are looking at several other States where we see a high foreclosure rate, and particularly where we see properties going under in 90 or 120 days. They are a kind of milestone for us.

Mr. SHELBY. That is a red light to you, a warning signal that something is wrong, is it not?

Mr. HINCKEN. Yes, sir.

Mr. SMITH. Looking back prior to 1983, before there was a focus, is there any way to try to uncover whether or not some of the earlier foreclosures might have been part of schemes similar to the Camden type of operation?

Mr. HINCKEN. I guess that is possible, sir. It depends on their data base.

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Mr. SMITH. I see. Perhaps it is something that might be taken back and evaluated and looked into because we did experience in 1982 and 1983, a tremendous number of foreclosures, and perhaps some of those could have been part of fraudulent schemes.

I was wondering if you could tell me whether or not any other cases are being investigated in any of our other urban areas or suburban areas, such as Newark, or Jersey City? Are there any investigations underway there?

Mr. HINCKEN. Not by the VA, sir. Not at this time.

Mr. SMITH. You just indicated Willingboro and Camden are the only two—

Mr. HINCKEN. At this time.

Mr. SMITH [continuing]. At this time.

Mr. HINCKEN. By the VA IG.

Mr. SMITH. Would it be inappropriate to speculate as to whether or not others will soon be forthcoming?

[No response.]

One final question, if you would. Can you recommend to this committee any legislation that you think might help in your job and in all of our jobs to crack down on fraudulent and abusive VA home loans?

Mr. HINCKEN. We have only made one formal recommendation, at this time, sir, to the Chief Benefits Director of the Department of Veterans Benefits, and that has been to do what you heard is being done in terms of credit the first line of defense for the VA.

No credit is good credit. False, or reversing social security numbers, is a problem. We need to verify the social security numbers, and run our own credit checks, that is a back-stop for any loan that you are qualifying for. We should also review what the lender or the real estate broker have put together. We must start looking at what they are doing. It is a little more work, but I think when you are looking at $14,000 for each foreclosure, it is very cost effective.

Mr. SMITH. Mr. Hincken, in addition to social security numbers being changed and altered, what other types of data are often manipulated?

Mr. HINCKEN. Bank deposits—the amount of money or the existence of a bank account. Employment—inflating the wife's income or giving the wife a job when it is non-existent. Understating the number of dependents. Every thing that Mr. De Ritter told you is what we have run across.

Mr. SMITH. Do you see any potential trouble areas for the future, say, the VA comes up with—there will never be an air-tight system, but a way of really weaning out many of these problem areas? What else can we do?

Mr. HINCKEN. Working with the Department, I think we would like to do a vulnerability study jointly with them. They are the experts in the program. They know the market. They know the lenders. We know, the crime and fraud angles.

Working together in the vulnerable areas we can look at the entire process. Using the investigative expertise we are picking up in the program from coast to coast we can make some recommendations with the program people.

Mr. SMITH. And, one final question. Can you give us any idea of what the time line is for this vulnerability study?

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Mr. HINCKEN. That is a suggestion, sir. We are working on that. I would guess, in the next 4 or 5 months.

Mr. SMITH. Thank you. I yield back.

Mr. SHELBY. Thank you two gentlemen for coming up from Washington to be with us tonight.

Mr. HINCKEN. Yes, sir.

Mr. SHELBY. Our next panel will have Mr. E. Robert Levy, executive director, Mortgage Bankers Association of New Jersey, and Mr. Robert Jordan, and we will also have Mr. Jack Sikking of the New Jersey Association of Realtors.

Your written testimony will be made part of the record. Please briefly summarize your comments.

Mr. Levy.

STATEMENT OF E. ROBERT LEVY, MORTGAGE BANKERS ASSOCIATION OF NEW JERSEY

Mr. LEVY. Thank you, Mr. Chairman.

I would like to thank Congressman Smith and yourself and the others associated with the committee's efforts for inviting us here today to discuss some of the very important issues associated with the VA's programs.

As executive director of and counsel to the Mortgage Bankers Association of New Jersey, I represent over 230 members. They are—incidentally, I am probably going to stand somewhat on my written statement based on some of the things I heard here tonight. So, bear with me.

The members include the largest mortgage lenders in the State, mortgage bankers, commercial banks, savings banks, savings and loan associations, and any of those other institutions that have an interest in the mortgage market in the State. I recognize that based upon some of the things I have heard here tonight that you are giving a good deal of attention to alleged fraudulent practices in New Jersey and other States, and I do want to say that myself and from my standpoint, Mr. Jordan's standpoint, who serves here with me and who I will introduce shortly, we came primarily to be positive and to discuss from the standpoint and perspective of the mortgage lender, issues dealing with the under-utilization of the program and how we can perhaps contribute by our testimony toward revitalizing this program.

I do also want to say that I would hope that the focus on what I believe, from everything I know and I do not know an awful lot about it, are isolated instances of perhaps some fraudulent conduct involving one or two or a few individuals, not massive fraud by companies, will not unduly and unnecessarily color what, in New Jersey, I can tell you, is a very, very fine mortgage lending community.

As a matter of fact, I think New Jersey has to stand out as probably one of the best regulated, both from a governmental and self-regulation standpoint industry that I am aware of, and I do, on occasion, travel around the country and meet with other States. We are very, very proud of the mortgage lenders here in New Jersey and the companies are outstanding in their service to the public and in truth, I think that to spend an awful lot of time from our

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perspective, at least, on fraudulent practices, is to do a great disservice and to color the issue of why the VA is under-utilized to a greater extent than may be necessary, at least in this State.

Now, there may be other States, Mr. Chairman, where you do have severe problems and massive fraud, but that is not the case, at least to our knowledge, here in New Jersey.

We have been a primary source of VA financing. That is, our members in New Jersey, over the years, were very supportive and continue to be of the VA's programs, and we will assist in any way we can as an organization to assure their continuation as a source of local financing to these worthy individuals who utilize the program. In fact, our board of governors specifically authorized our attendance here today because we do want to impart to you some of the information that, hopefully, Mr. Jordan can give you both in his testimony and in response to questions on the issues of under-utilization.

So, at this point, not to take any further time, I would like to present Robert Jordan, Sr., of County Mortgage Co., Inc., of Verona, NJ. He is an acknowledged expert in the VA programs in New Jersey. He has sat on our board of directors—governors for many years. He has acted as our FHA/VA chairman, and I think in Mr. Jordan you will find a most knowledgeable individual who can be very helpful to the committee.

[Statement of Mr. Levy appears on p. 59.]

Mr. SHELBY. Mr. Jordan, you go right ahead. Your written testimony will be made part of the record, in its entirety.

You go ahead and say what you please.

STATEMENT OF ROBERT R. JORDAN, SR., MEMBER, BOARD OF DIRECTORS, MORTGAGE BANKERS ASSOCIATION OF NEW JERSEY

Mr. JORDAN. Thank you, Mr. Chairman, and Congressman Smith.

I am delighted to be here today because I feel a responsibility as a mortgage banker and representative of the Mortgage Bankers Association to support and stimulate the VA financing in our State.

I would like to note at the outset that our membership is generally supportive of governmental programs, such that the VA and FHA offer.

Basically, these programs do not compete with the readily available mortgage money, Fannie Mae and Freddie Mac. The VA programs specifically, are for the most part, no money down. The VA has done this for many years, and we hope they will continue to do so. However, we believe in order to stimulate VA financing, some of the following has to occur. These are my opinions.

According to the most recent VA census that I obtained from the Veterans' Administration, there are 925,000 veterans in New Jersey. Yet, it is my opinion that most of them do not realize that they are eligible for the home loan program, and they become re-eligible through the sale of their home and their pay-off of their existing mortgage.

I feel that the VA, veterans groups, lenders, and others are simply not providing sufficient advertising and public relations to make this information common knowledge. Again and again, wher-

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ever I go, as I discuss this with a veteran, he or she, and there are shes from time to time as veterans, do not realize that they are eligible now or that they are re-eligible for a VA guaranteed mortgage.

Secondly, the VA interest rate has to be freely negotiated just the same as the FHA. Let the marketplace set rates and points. This will lead to lower point rates and higher volumes of loans. The vet and the lender should be able to negotiate points and rates freely, and this is exactly what has happened with the FHA.

Now that the FHA rate can be set freely and the points can be paid by buyer or seller, whenever, we have seen an upshot in this type of business, and we see that the points actually have come down from that 5 or 6 to 3, 2.5, what have you.

Why is that? Because the VA rates are at 11.5 right now, which is not exactly market. These points have to be higher whereas if the rate were 12, 12 and a quarter, whatever, you would be at the market in New Jersey now.

Third, the loan guaranty should be increased. I think as a comment on this subject, the Mortgage Bankers Association of America is working closely with interested parties. If the guaranty is increased, then the mortgage amount would be higher. There are veterans that need mortgages for $30,000 or $40,000; there are also veterans that need mortgages sometimes for a $120,000 to 135,000, what have you.

Fourth, user fees should not be increased. The so-called funding fee is now 1 percent. It is my belief if it goes much higher it will cut into loan volume, as it has with the FHA, and I know that sounds contradictory. The FHA program is working well for the other reasons I mentioned, but a big hold back is the upfront 3.2 percent, or whatever it is, even though it is added to the mortgage.

Fifth, appraisals should represent market value. I know there has been a lot of talk here tonight on appraisals being too high or what have you. I assure you my 27 years as a mortgage banker and 10 years working with the committee, it has been a struggle, Mr. De Ritter will back me up on that, that we believe the VA appraisal usually comes in too low. Maybe there is the fear of, you know, the IG's office or what have you, but believe me, it is our opinion that it comes in too low many times.

Lastly, VA staff and productivity have always been a problem. Right now, with a small staff at the VA and the low volume applications, it is not serious. It is a moot question. However, as the volume increases, and I think it will this year, it is going to be right back where we were a year and a half ago, where on a timely basis you will not be able to get out approvals or appraisals in a reasonable time period.

All in all, though, I have worked many years with the New Jersey Veterans' Administration, and I find them to be very professional. They are fair, they are firm. There is a give and a take, and I hope that we can work many, many more years together.

Thank you.

[Statement of Mr. Jordan appears on p. 61.]

Mr. SHELBY. Mr. Sikking? Is that correct?

Mr. SIKKING. That is correct.

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Mr. SHELBY. Okay. Your written testimony will be made part of the record without objection in its entirety. You may proceed.

Mr. SIKKING. Okay.

STATEMENT OF JOHN H. SIKKING, REALTOR, NEW JERSEY ASSOCIATION OF REALTORS

Mr. SIKKING. My name is John H. Sikking. I am a broker of record for Spartan Realty, a small office doing business in Gloucester and Camden Counties in the southern portion of New Jersey.

I have been in the real estate business since 1971, and I have owned Spartan Realty since 1976. So far this year, we have completed 53 settlements, only 4 of them were financed through the Veterans' Administration's home loan guaranty program. In addition, I sold two VA-owned properties, repos.

I sold 15 houses that used Federal Housing Administration financing. The balance was conventional financing.

It is my understanding that this committee is interested in ideas for ways in which the Veterans' Administration can be a more viable force in home purchases by veterans in New Jersey. I believe that real estate professionals shy away from VA financing because of the cumbersome way in which the VA operates on two points.

The procedure for appraising properties for sale and the matter of who pays the mortgage placement fee. Currently, the veteran is not permitted to pay the mortgage placement fee. The appraisal procedure that is used by the VA as compared with conventional financing adds an additional two weeks to the whole process of buyer qualification.

The VA has a fee appraiser that does the actual appraising and that fee appraiser is then required to send his work up to the Veterans' Administration office in Newark. This takes approximately 2 weeks longer than FHA or conventional financing. After the VA reviews the appraisal, it is then sent to the mortgage company for the processing of the loan.

Currently, the FHA allows the fee appraiser to return the appraisal to the mortgage company directly. In addition, if the appraisal is lower than the selling price and the seller wants to have that appraisal appealed, the procedure takes approximately 1 month to complete through the VA. An appeal through FHA takes about a week to 10 days.

This has an effect on the willingness of the real estate professional to use VA because when you have a problem with certain types of financing, you tend to shy away from using it. The general feeling, especially in my office, is that we do not like dealing with an agency that is far away from our place of business.

The regional VA office is in Newark, and it also deals with New York and Connecticut. We feel they are removed from us, whereas the FHA has an office in Camden as well as in Newark. New Jersey is served by two FHA offices. The Veterans' Administration regional office in contrast serves three states.

Current law states that a veteran cannot pay mortgage placement costs or points, only the seller can pay points. In FHA financing, the seller or buyer may pay points. So, if a seller has to give

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up point money on top of a low and slow VA appraisal, the seller is less likely to want to sell to an eligible veteran purchaser than to a conventional or FHA buyer.

There are two types of procedures in the Veterans' Administration loan program for appealing a low appraisal on a home. One of them is where the veteran initiates the appeal, and in many cases, if an appraisal comes in, for example, $1,000 lower than the selling price, and time is a problem in processing the mortgage, the seller feels obligated to accept the lower price because the seller is committed to purchase, say, another house.

The seller is now a purchaser himself, and he feels the pressure to accept a low appraisal. So, if the veteran purchaser refuses to sign the form to authorize an appeal procedure in trying to get a lower sales price, what can the seller do.

This is not a problem for the veteran in this case, but what happens is that realtors and other licensed real estate professionals have a bad feeling about dealing with the VA because they were not able to quickly resolve problems with one transaction.

Now, when they meet another eligible veteran purchaser, they are likely to recommend to that purchaser to go through FHA or conventional financing rather than utilizing his VA eligibility.

That is the extent of my written remarks. I am open to any questions you may have.

[Statement of Mr. Sikking appears on p. 63.]

Mr. SHELBY. Thank you.

I would like to ask Mr. Jordan a couple of questions.

How does the VA guaranteed home loan program work in New Jersey? For example, let us say I am a veteran and I buy a house from a real estate broker. The real estate broker then submits the loan papers to a mortgage banker, is that right?

Mr. JORDAN. Well, the mortgage banker usually takes the application.

Mr. SHELBY. That is what I meant.

Mr. JORDAN. Right. Yes, sir.

Mr. SHELBY. Can you basically do a lot of that paperwork yourself? I know they do in other States in connection with the VA.

Mr. JORDAN. Congressman, you mean that the mortgage banker would do a lot of paperwork?

Mr. SHELBY. Yes. Do you not process VA applications automatically?

Mr. JORDAN. Yes. We do an awful lot of paper work and lending, in general, is becoming more complex.

Mr. SHELBY. You do a lot of the basic underwriting to a certain extent, do you not?

Mr. JORDAN. Well, many lenders, as Mr. De Ritter pointed out, are automatically approved, approved right then in their own office.

But the appraisal procedure that the gentleman was alluding to does take some time, and if there is an appeal, speaking for my own company, I do not bother to appeal it anymore because you never win.

Mr. SHELBY. He mentioned HUD, the Federal Housing Administration turning around and appealing in seven days.

Mr. SMITH. Seven to 10 days.

Mr. SHELBY. Seven to 10 days, and the VA 30 days. Is that because of lack of manpower? Is that just part of the way the VA operates?

Mr. JORDAN. I just think it is philosophy. The Camden FHA has always had a reputation for being timely and quick.

Mr. SHELBY. By not acting on this expeditiously, hoping it will go away?

Mr. JORDAN. I would not say that, Congressman. I cannot speak for their internal operations.

Mr. SHELBY. Let me mention one other thing you brought up. The guaranty amounts set by statute. I believe it is by statute, is it not?

Mr. JORDAN. Yes.

Mr. SHELBY. Why would, say, an increase, for example, the $40,000 guaranty—how would that stimulate the market?

Mr. JORDAN. All right.

Mr. SHELBY. For VA loans.

Mr. JORDAN. As far as VA is concerned, the mortgage size could be anything.

Mr. SHELBY. Sure.

Mr. JORDAN. But a mortgage banker or any other lender that wants to sell these loans must sell them into, for the most part, Ginnie Mae securities. There is a Ginnie Mae formula, mathematical formula, that involves the eligibility. The larger the eligibility, the larger the loan can be.

Mr. SHELBY. And, you think the guaranty amount is basically unrealistic considering—

Mr. JORDAN. In high cost areas, Congressman, like our northern New Jersey.

Mr. SHELBY. Northern New Jersey?

Mr. JORDAN. Yes, sir.

Mr. SHELBY. Bergen County?

Mr. JORDAN. Yes, sir. I cannot remember the last time I had a VA type mortgage in Bergen County. As a matter of fact, our company is in West Essex County, and that is sort of expensive, and I cannot recall that having an application lately.

Mr. SHELBY. Would some flexibility there for high cost areas, do the job?

Mr. JORDAN. I think so. The FHA—

Mr. SHELBY. Leave it up to the guaranty officer who knows where properties are much more expensive.

Mr. JORDAN. Maybe I could take a leaf out of Freddie Mac or Fannie Mae's procedures and once a year, analyze it and come up with higher mortgages. Yes.

Mr. SHELBY. The gentleman from New Jersey?

Mr. SMITH. Thank you, Mr. Chairman.

I guess to piggyback on the question the Chairman was asking about increasing the loan guarantee, I would remind members of the committee and the Chairman, who was one of the prime sponsors of the bill, we did do that last year. Unfortunately, it got tied up over on the Senate side. I believe the figure was $32.5 and went nowhere, and we are proposing again this year to do a very similar thing to raise the loan guaranty to do just what you are suggesting, to increase the utilization of the program as well as the amount of

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money that will be guaranteed and how much risk you are willing to undertake.

Perhaps some of your suggestions, Mr. Jordan, I think, were very insightful. Perhaps Mr. De Ritter could respond, if you would, come back to the podium for a moment, as to whether or not in your opinion, the veterans'community is pretty much in the dark as to the availability of the Home Loan Program? Perhaps we have not said it enough recently and it has fallen into disuse because we have taken it for granted.

Mr. DE RITTER. Particularly the reuse of the entitlement is still not widely enough known that veterans can take advantage of it. It was, I think, passed in approximately 1975. Prior to that, every veteran just could use it one time, and many still have the ways of the past in the mind, I used that in 1946, and I cannot use it again, and we go out on speaking engagements and attempt to change these attitudes. We try to get things in the press also, but it is very difficult to change a very intransigent attitude on the part of veterans that did exist for thirty years. That was the condition.

Mr. SMITH. Perhaps the realtors association and the mortgage bankers, among their own members, could disseminate the information, too. Maybe you are doing it already. I do not know.

But, it seems to me that it would increase utilization. Mr. Jordan, again, the Administration had proposed earlier on in this session of Congress that we hike the loan origination fee from its current 1 percent to 5 percent.

Both the chairman and I vigorously opposed that. As a matter of fact, we led our committee and other members of the House in rallying around keeping it at the lowest possible figure, and one percent was the one that we thought would be as high as it could go. If you have to have a loan origination fee, 1 percent would be it.

We were largely successful, and I was wondering if you could tell us, if it were hiked, if it were raised to 5 percent or 3.5 percent or 4 percent, what kind of fall-off in use would you anticipate? I would just say parenthetically, the Congressional Budget Office, had said their estimate would be that about 20 percent of the veterans would not come into the system.

Mr. O'Toole from the VA in Washington said the worst case could be as high as 50 percent. Perhaps the mortgage bankers and the realtors have done their own analysis and have a figure.

Mr. SIKKING. It would kill the program. If you went to 5 points, it would kill the program because I could get FHA financing at a 100 percent financing, with no points to the buyer.

Mr. SMITH. Very succinct and direct. Thank you.

Mr. JORDAN. Congressman Smith, to give you an illustration, our company is a medium-size lender, but we are a giant in VA and FHA type financing in the State, and I would say four out of ten of our closings are government-related. Of that four, only a miniscule amount is VA. So, if this user's fee went even higher, our realtor friend said, I think it would just about kill it.

Mr. SMITH. You know, Mr. Levy, I think, made a very good point a few moments ago in your preface that we would not want to give a distorted picture as to the program. Earlier in my remarks, I said something very similar, and in response to one of my questions, the estimate was something like 2 or 3 percent or less, I think, as to

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how many people engage in these fraudulent practices, and I appreciate you emphasizing that because very often in congressional hearings Congressmen and Senators will take something that is wrong and needs to be corrected, and will turn it into this is what the program is all about, but it is not.

This is a fine program that needs to be enhanced and utilization rates encouraged rather than discouraged.

At this point, Mr. Chairman, those are all the questions I do have.

Mr. SHELBY. Thank you.

I appreciate the panel coming here.

Our next panel will be our last panel, and it will be the veterans service officers, Mr. John Woodbury, service officer, Veterans of Foreign Wars; Mr. Joseph Llewellyn, Disabled American Veterans; Mr. Ralph Stone, American Legion, he will be accompanied by Mr. Robert Field. Mr. Michael Berman, Jewish War Veteran. He is the State commander. He will be accompanied by Mr. Harvey S. Friedman, National Commander.

I hope we can get enough people at the table here. I appreciate your waiting patiently here, but we held you to the end because we wanted you to have the benefit of the others' testimony.

Mr. Woodbury, would you may lead off. Your written testimony will be made part of the record.

STATEMENT OF JOHN WOODBURY, SERVICE OFFICER, VETERANS OF FOREIGN WARS

Mr. WOODBURY. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, thank you for the privilege of appearing before this subcommittee to present the views of the Veterans of Foreign Wars of the United States, Department of New Jersey, with respect to the VA Home Loan Guaranty Program.

My name is John Woodbury III, and it is my privilege to serve the more than 73,000 members of the VFW, Department of New Jersey, as their State service officer. With me in the audience this evening is Past Commander Bob Wallace, who is the legislative officer for the Department this year. My boss, the State commander, Ed Fisher. The State adjutant quartermaster, Willis C. Byrd. The State employment officer, Leon Sculp, and the State chief of staff, Tom DeMayo.

Mr. SHELBY. You are well represented.

Mr. WOODBURY. They wanted to make sure I got here, I think.

The VFW is appreciative of the chairman for holding this hearing in our State, demonstrating his and the subcommittee's continuing concern for our nation's veterans being able to obtain the American dream of home ownership.

We are delighted to have the opportunity to welcome back not only to his home State but to his home district, the very distinguished ranking minority member of this committee, Chris Smith.

Chris has been a strong advocate for the veterans since his election to the House and his voting record exemplifies this strong commitment. He is a true friend of the veteran and we are extremely pleased that he is here this evening.

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Mr. Chairman, the VFW continues to center the VA Home Loan and Guaranty Program as one of the most successful and beneficial programs available to veterans. More than 11 million loans have been approved, thus attesting to its popularity.

If it were not for this program, a vast number of veterans would not be in their own homes today. We believe that the Loan Guaranty Program should continue to enjoy the full support of the Congress and the administration. Unfortunately, the President's budget is recommending two proposals which would, in our opinion, severely undermine the highly successful program.

One such proposal, which has been elaborated on this evening here is to raise the user fee for a VA guaranteed home loan from 1 percent to 5 percent. Inasmuch as we oppose the establishment of a user fee and its subsequent increase from one half of 1 percent to a full 1 percent, we are now even more committed in our opposition to the proposed excessive and unwarranted increase.

One of the attractive features of the Home Loan Guarantee Program is the provision of not requiring a down payment. Many of today's two income families can manage a large monthly mortgage payment. However, they have not been able to save enough capital to meet the stiff down payment requirements of commercial lending institutions.

As we have stated in the past, we perceive the user fees to be, in effect, a down payment without the benefit of it reducing the amount to be financed. Of course, the veteran may opt to have his fee incorporated into the loan. This avenue, though, is hardly advantageous to the veteran.

Assuming $60,000 for the average VA guaranteed loan, a $3,000 user fee would be assumed. This original $3,000 amortizes over 30 years at today's current market rate would require the veteran to have to pay over $11,000 or nearly four times the required amount.

In addition, there is a very real possibility of lenders requiring increased compensation for the higher risk of lending an amount greater than the value of the property. If a veteran opts to amortize the user's fee and not render a down payment, the lender would then have to grant the loan for the current value of the property plus the user fee.

Mr. Chairman, the Administration is also proposing to repeal the Veterans' Administration's authority to establish home loan interest rates. We believe departing from this policy would be a serious mistake and detrimental to the veterans' best interests.

At present, the VA only establishes the maximum interest rate a veteran can pay on a guaranteed loan. Even though lenders may charge a lesser rate, cases such as this are rare or non-existent. We believe should veterans be forced to negotiate this rate, they will ultimately pay higher rates than they do with an administered rate.

One reason for this anticipated higher rate is that lenders would set it because most home buyers do not shop around for the best lender package. We do not foresee a competitive factor holding down the rate.

In addition, VA guaranteed loans offer benefits that are not always available on conventional loans. Assumability, no prepay-

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ment penalties, and fixed rates are attractive terms that private lenders may consider justification for assessing higher rates.

Not only would the veteran experience increased expenses with the negotiated rate, we believe the VA would witness increased claim costs should foreclosure proceedings occur. When a VA guaranteed loan goes to foreclosure, the claim is paid with interest based on the mortgage rate.

Inasmuch as we expect higher interest rate should this proposal be enacted, it can only be expected that outlays will increase from the loan guaranty revolving fund.

As one can deduce, it would also be very difficult to predict future revolving fund outlays with such a variance of interest rates throughout the nation.

Mr. Chairman, the proposals are part of the Administration's bill entitled Veteran Housing Amendments Act of 1985, and the VFW opposes this draft bill in toto.

Mr. Chairman, my office is located in the VA regional office in Newark, and as such, I have frequent dealings with the home loan division there. I have always found the personnel of that division to be professional in their conduct and most cooperative to deal with.

I have also found them to be overworked, something that, unfortunately, is not uncommon in the Newark regional office due to the detrimental budgets of the past few years throughout the Department of Veterans' Benefits.

This concludes my testimony, and I again thank you for the opportunity to appear.

[The prepared statement of Mr. Woodbury appears on p. 67.]

Mr. SHELBY. Mr. Joseph Llewellyn.

STATEMENT OF JOSEPH LLEWELLYN, SERVICE OFFICER, DISABLED AMERICAN VETERANS

Mr. LLEWELLYN. Yes. Mr. Chairman, members of the subcommittee, on behalf of the 30,000 members of the DAV in the State of New Jersey, I appreciate being able to participate in this evening's proceedings. Accompanying me this evening is my department commander, Jerome Hogan. I did not need as much backing as Mr. Woodbury did.

As you can see by my testimony, most of my written testimony has dealt with the favorable impact that the VA Loan Guaranty Program has had in the State of New Jersey, and a large portion of it, of course, has dealt with the fraud involved in Camden area. Most of that has been covered by the VA personnel and by the IG. I will not go into that too much.

But, in addition to our concern about that fraud, our concern about the current handling and regulations on the pre-approved mortgage you had mentioned earlier, Mr. Chairman. Currently, approximately 60 percent, I believe, of the loan applications coming into the VA here in Newark are pre-approved loans. Although we do not want to encourage less use of this, 2 or 3 percent fraud on 60 percent of the cases coming in may amount to high amounts of veterans suffering foreclosures.

As in all cases, when the veteran loses his home to foreclosure, the veteran is the one who winds up with the increase in inflated costs and with the overpayments.

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Just briefly, some of the things we would like to see, Mr. Chairman, is to have either administrative and/or legislative improvements that could result in substantial savings for the veteran and the loan guaranty fund. This is especially true if collected debts and fines imposed on violators of the law were deposited in the loan guaranty fund.

Foreclosure actions were completed in a timely manner. Only credit worthy veterans were approved for loans, and the veterans in default were to receive greater assistance in counselling from the VA.

As you alluded to before, when the loan is in default, after three months, then the veteran is counselled by the VA. However, with pre-approved loans coming in now, probably the first time that the veteran is going to deal with the VA in these instances now are if they are in default after three months. We would like to see earlier and a more timely counselling by VA personnel in these cases.

And, finally, we would like to see strict uniform system guidelines developed for VA fee appraisers.

Thank you, Mr. Chairman.

[Statement of Mr. Llewellyn appears on p. 72.]

Mr. SHELBY. Mr. Ralph Stone, American Legion

STATEMENT OF RALPH STONE, SERVICE OFFICER, AMERICAN LEGION ACCOMPANIED BY: ROBERT FIELD

Mr. STONE. Mr. Chairman, Congressman Smith, the American Legion appreciates the opportunity to comment on the Veterans' Administration Loan Guaranty Program here in New Jersey, and we are grateful for the subcommittee's obvious interest.

It appears that some veterans are falling victim of certain individuals and companies who place such a high priority on profitmaking that they will resort to such illegal practices as inflating and falsifying appraisal reports to achieve their reprehensible goals.

The American Legion feels strongly that any individual or company found guilty of any violation of this nature should be prosecuted to the full extent allowable by law.

It is also, I believe, that the Veterans' Administration has an obligation to be more observant of these individuals and companies who utilize the loan guaranty program to ensure that they comply with the letter of the law, and to weed out and institute legal action against those who do not.

We would now like to address two areas that concern us and which we believe are partially responsible for the low rate of useage being experienced in the loan guaranty program.

To begin with, it would appear that the current entitlement level of $27,500 is somewhat low and should be increased to a level that would offer greater incentives to prospective lenders. Given the cost of an average housing unit in today's economy, $27,500 does not appear to be a realistic amount, and we would urge an appropriate increase in this entitlement level.

The second and most important concern is the current loan origination fee. This fee is currently set at 1 percent with proposals being made to increase it to as much as 5 percent.

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It is a very strong belief of the American Legion that the current origination fee should be repealed instead of increased because it is our opinion that this fee has resulted in an appreciable decline in the number of veterans seeking this benefit.

As it is, the origination fee costs the veteran who uses his entitlement thousands of dollars over the life of a mortgage, and literally constitutes a charge for a benefit which has already been paid for by individual sacrifices.

The loan guaranty program is one which not only benefits the veteran, but also makes significant contributions to many facets of the nation's economy. It is a worthwhile program, and its value to America should not be under-estimated.

We urge the subcommittee to recognize the importance of this program and ask that any proposed legislation be directed toward improving program benefits and usage.

Mr. Chairman, that is my presented text, but I would like to digress from that and make a few observations. Last February, the VA's Office of the Inspector General began active investigations into alleged fraud in the manufactured housing industry.

After several months of investigation, the practice of mobile home dealers receiving kickbacks from manufacturers is believed to be widespread. According to VA regulations, mobile home builders are allowed a 20 percent mark-up. When home builders are allegedly misrepresenting the value of the property by inflating property invoices, various extras such as washers and dryers, air conditioners and outside decks, are not provided in these properties, but are included on invoices provided to prospective home buyers.

Using the now inflated invoice to obtain a loan guaranty, the veteran purchases the property for more than its true worth. Sometimes causing extensive mortgage costs which could bring about default and even foreclosure.

It appears that after the VA had guaranteed the loan some over charges have been reported to range between $500 and $5,000 per property, the mobile home dealer receives a kickback from the manufacturer from the funds generated because of the inflated property values of the invoices.

We at the American Legion praise the VA and the Inspector General for starting this investigation, but we feel it was long overdue.

Another point that we would like to make is the recently introduced H.R. 2801, which would provide a property price discount sale to aid in marketing difficult to sell properties. Any home not sold within 3 to 6 months would be discounted at 20 percent; within 7 to 12 months, discounted by 25 percent; and if sold—not sold for over 1 year, discounted by 30 percent.

This discount only applies, of course, to properties purchased for the first time by home buying veterans. The bill would address two prime concerns of the American Legion. First, H.R. 2801 would provide assistance to first-time home buying veterans who are usually working under severe economic constraints. Second, the measure would seek to allow VA to divest itself of difficult to sell properties. However, the American Legion feels that the VA should very thoroughly assess the livability of these difficult to sell properties.

Mr. Chairman, that concludes my remarks.

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[The prepared statement of Mr. Stone appears on p. 74.]

Mr. SHELBY. Mr. Michael Berman, Jewish War Veterans.

STATEMENT OF MICHAEL BERMAN, STATE COMMANDER, JEWISH WAR VETERANS ACCOPMANIED BY HARVEY S. FRIEDMAN, NATIONAL COMMANDER

Mr. BERMAN. Thank you, Mr. Chairman.

Mr. Chairman, my name is Michael Berman, and I am the Comn ander of the Department of New Jersey Jewish War Veterans. The Jewish War Veterans is a congressionally chartered veterans organization and the oldest active veterans organization in the nation.

I am a Vietnam veteran myself, and a practicing attorney in Lakewood, NJ. I apologize for the absence of our National Commander Harry S. Friedman, from Oakhurst, NJ. He is, unfortunately, still in Washington, D.C., trying to get out. His presentation has been already submitted.

Mr. SHELBY. Same problem we had.

Mr. BERMAN. That is right.

I come before you this evening to express my concerns for a rapidly fading American dream. At least it is fading for our veterans. The dream of owning a home.

We dream of the little house with the white picket fence, the oak tree in the yard, and the swing hanging from the branch of that oak tree. Today, that dream remains only a dream for veterans who must rely solely on VA loans.

I come before you to ask you to make that dream a reality.

In 1944, you passed the Servicemens Readjustment Act. One provision of that law was designed to reward our returning veterans with low interest, no-down-payment loans to assist them to purchase a home.

It was a fantastic success. Homes were bought, dreams fulfilled. But, where are we today? The VA will guarantee only a mortgage up to $27,500, a sum totally inadequate in today's markets. We ask that you raise the loan guaranty to a level which reflects the cost of homes today.

We ask that you eliminate the points the seller must pay if the buyer goes VA. Sellers simply boost the cost of the home to cover these points. That means, in fact, that sellers are adding the 6 percent to cover the points and another 7 percent to cover the cost of the real estate commission. A total selling price of 13 percent above the real market.

This total of thirteen percent drives many of the veterans out of the market. The ability to negotiate these points with both the sellers and the lending institutions should be available to all parties.

Such flexibility just might be the solution to some of the current problems that we now face.

Finally, we would like to thank you and your committee and your colleagues for blocking the implementation of an origination fee much above where it is today. Any origination fee would literally destroy the VA loan program as we currently know it and would bring to a sudden end the dream of so many deserving veterans.

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Again, Mr. Chairman, Congressman Smith, I would like to thank you for allowing me to address your committee. I would like to thank the staff of Congressman Smith, who facilitated some of the rough edges, and allowing me to present the views of the Jewish War Veterans of New Jersey.

[The prepared statement of Mr. Berman appears on p. 76.]

Mr. SHELBY. I believe it was Mr. Stone who raised the manufactured housing investigation. That is going on nationwide; and the Inspector General, who was here earlier, has been involved in it. The Justice Department has been involved and they are cleaning up the edges there.

Mr. STONE. That is good.

Mr. SHELBY. I do not know the exact term, however, I believe Mr. Llewellyn mentioned it. Where the mortgage banker is doing the approval—prior approval?

Mr. LLEWELLYN. Pre-approval.

Mr. SHELBY. Pre-approval. Is that working pretty well in New Jersey?

Mr. LLEWELLYN. As I said, I believe Mr. De Ritter could verify it. I believe about 60 percent of those—

Mr. SHELBY. He is saying yes. He is not on the mike.

Mr. LLEWELLYN. Of course, that helps his workload.

Mr. SHELBY. Sure it does. It also helps the mortgage banker and it helps the veteran, does it not, because you are helping to expedite the papers?

Mr. LLEWELLYN. Yes.

Mr. SHELBY. You are seeing a problem right there, if there is one, are you not?

Mr. LLEWELLYN. Yes.

Mr. SHELBY. What do you do in a situation where you realize there is a credit problem? Do you contact VA about it? Do you defer it? Does the veteran shop around somewhere else for the loan?

Mr. LLEWELLYN. I would think they would shop around.

Mr. SHELBY. If you have a problem with it, if you have a red light coming up, there or a warning signal to stop, caution, what do you do?

Mr. LLEWELLYN. Well, as I said, the only red lights I see now is after the loan goes into the vault, after 3 months.

Mr. SHELBY. That is what the VA sees. They do not deal with it until then as a rule, do they?

Mr. LLEWELLYN. Nor do we, usually.

Mr. SHELBY. Why do you wait 3 months? Is that a veterans regulation or is it a precedent?

Mr. LLEWELLYN. I believe it is a VA regulation.

Mr. SHELBY. Not a statute, though, is it?

Mr. LLEWELLYN. No.

Mr. SHELBY. Not a statute.

Mr. LLEWELLYN. As I said in my remarks, we would especially like to see earlier counselling in that 3 month period.

Mr. SHELBY. Yes. That was what I was alluding to earlier. If a mortgage banker is the loan holder and the veteran missed two payments, that should be a real yellow light should it not?

Mr. LLEWELLYN. It should be.

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Mr. SHELBY. And, sometimes, what the veteran wants is for the loan to be saved, however, if it is going to go by the wayside, the sooner you know it, the better off you are, is it not?

Mr. LLEWELLYN. That is correct.

Mr. BERMAN. Your Honor?

Mr. SHELBY. Go ahead, Mr. Berman.

Mr. BERMAN. Sorry. Force of habit.

As a practicing attorney, I have several clients who are now in default of VA loans.

Mr. SHELBY. Okay.

Mr. BERMAN. They have gone in terms of 9 or 10 months without making payments before, in fact, they are even contacted by the VA. At that point in time, at least from my point of view, they are pretty much at the point of no return. Ten months, you are talking in terms of maybe $8,000 to $10,000 in arrearages.

Obviously something should have happened long before that point besides a call saying when are you paying and that is it. That is the only contact.

Perhaps there should be a mix, as the mortgage gets smaller and the 3-month period passed and payments are not made, if it is towards the end of the term, it is not particularly serious because it will probably be caught up.

On the other hand, if it is 3 months within the first 3 years, that is an indicator that there is a major problem.

Another problem that I face is where there is a second mortgage on the property. The VA now does not know which way to turn because with the second mortgage on the property, the second mortgage holder is able to go after non-paying veteran.

The VA does not have that flexibility where the second mortgage is present. Perhaps something can be done there.

Mr. SHELBY. Mr. Berman, as an attorney, you just stated for the record that you are representing and have represented veterans. Why were they not contacted for so long a time?

Mr. BERMAN. Mr. Chairman, if I knew that question, we could both go home. I do not know. There is a difficulty. Whatever it is, if someone does not have a tickler file working, then no one will make the contact. Perhaps its because staff at the VA office in Newark is horrendously inadequate. They are being cut to the bone, and, maybe the personnel is just not available to do it.

So, many times, the first contact that occurs is the foreclosure notice coming itself.

Mr. SHELBY. The ship is about ready to sink then.

Mr. BERMAN. Clearly.

Mr. SHELBY. Mr. Smith?

Mr. SMITH. Thank you, Mr. Chairman.

First of all, I want to thank all of you gentlemen for your testimony and for coming out this evening.

I cannot agree with you more that we need to raise the loan guaranty immediately, and we will continue our efforts in Washington to get it at least to $32,500 or thereabouts, which is what the bill last year would have called for. I think, as a result of this hearing. Perhaps you are hearing this elsewhere throughout the country, and this will add further steam to that effort, as we are hearing from users, we are hearing from the VA, we are hearing

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from mortgage bankers, facilitators and the like. The message from each one is identical: Raise that loan guaranty, and I can assure you we will try.

Mr. Berman, you indicated that it should reflect the cost and Mr. Stone, you said there should be an appropriate increase, and Mr. Woodbury and Mr. Llewellyn, perhaps you might want to give us an estimate of what you feel, all four of you, would be an appropriate hike at this point.

Mr. LLEWELLYN. I sort of like the way the chairman alluded to possible sliding scale for certain areas. We in northern Jersey, particularly, face a high home market cost, and although a fixed figure of $32,500, an increase would help, and certain areas that would still be inadequate and there may be, as the chairman indicated, some need for some type of a sliding scale to be controlled by the local VA loan guaranty officer here in Newark.

Mr. BERMAN. Congressman Smith, I do not think we are asking that the veteran be qualified to live in Bedminster or Elberon, but they should be allowed great flexibility, and the sliding scale would permit them to go according to the standard of living or the cost of living in that area.

We do not want to foreclose them from living in where they feel they belong or where they can, in fact, afford to live.

Mr. SMITH. Mr. Woodbury?

Mr. WOODBURY. Mr. Chairman, Mr. Smith, I am also from the northern part of the State, and if you take a look at the prices of homes up in Essex County and also Bergen County, $27,500 is just not going to hack it.

Mr. SHELBY. Excuse me. Would the gentleman yield?

Mr. SMITH. Sure.

Mr. SHELBY. What is the average price of a home in Bergen County and Essex County?

Mr. WOODBURY. Well, in Essex County, a three bedroom house not too far out in the suburbs probably runs about a $160,000 to $170,000. One down the street from where my mother lives in Maplewood that has got to be around 40 years old is going for about a $135,000, only has one bedroom. One bathroom. Nice property. Put a tent there, it would be cheaper.

Mr. SHELBY. Beautiful area of New Jersey, too.

Mr. WOODBURY. Yes.

Mr. SHELBY. Mr. Stone?

Mr. STONE. They do pretty good in South Jersey, too, with a price range.

In looking at one of the old certificates of eligibilities, I see that the amount was $17,500 a few years ago, and now it is $27,500. In fact, it was quite a few years.

I feel as though a sliding scale affair may be in order. I do not think $40,000 would be bad to live with it.

Mr. SHELBY. On a guaranty?

Mr. STONE. On a guaranty.

Mr. SMITH. Mr. Chairman, if I can continue, I think there is an agreement, I think it is unanimous, that the VA has testified that there is definitely a problem with under-utilization with the program.

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I was wondering if any of you might have any kind of data or anecdotal stories regarding the impact that it is having upon first home buyers and particularly on Vietnam veterans?

Mr. WOODBURY. Mr. Smith, the biggest detriment to the VA loan guaranty program, aside from the probably inadequate base of the guaranty right now, is this user fee that was slapped on at half a percent and has now slid to a full and I know you and the gentleman from Alabama are trying to hold it. They just do not have it. The economy has not been particularly good of late, although it has improved, but people are not aware of it. VA benefits, basically, the first time they see a VA individual is probably for education shortly after service or someone who got hurt or injured for compensation.

Depending how successful they are with the dealings in the adjudication division, will also set the tone for the future dealings with the rest of the VA system. If they feel they are fairly treated, they will come back; if they feel they got a hassle, they will not be back.

As far as this being a one time benefit, a lot of people, primarily the World War II and Korean veterans, have been misinformed on that and our service officer seminars that we hold throughout the State during the course of the year, we try to bring this up. This is not a one time benefit.

I do think some positive publicity should be—either from the Mortgage Bankers Association or in conjunction with the VA and also the service organizations to get the word out to the troops.

Mr. STONE. I might add that being a working service officer in the field in Burlington County, when you tell the veterans about this users fee, as indicated by my colleagues here, it certainly turns them off. It certainly turns them off.

Mr. SMITH. Mr. Berman?

Mr. BERMAN. Congressman Smith, on your question, if you again go back to the arithmetic of it, if we go back and we say that there is a 7 percent commission, which is the standard fee in New Jersey, and 6 points, and a 1 percent fee, on the $100,000 home, the veteran is, in fact, getting $86,000.

The rest of it is absorbed in the fees, let alone attorneys fees. But, what is left is that he has to now go back to the VA, instead of going for a $100,000 mortgage or for that size loan, to come up with real money, he needs to go for a $114,000 or a $115,000 to get that same $100,000 home.

Mr. SMITH. All of us were shocked and continue to be angered over the revelations in Camden and what may have been a very similar situation in Willingboro.

To your knowledge, any of you gentlemen, have you heard of these instances occurring other than that which has been disclosed?

Mr. WOODBURY. I have not.

Mr. LLEWELLYN. No.

Mr. STONE. No.

Mr. BERMAN. I have not.

Mr. SMITH. That is encouraging.

Mr. Llewellyn, you made a statement, in fact, it was your closing comment a few moments ago, that we need guidelines for fee appraisers. As a matter of fact, your closing statement is really one of

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the summary recommendations of the Inspector General's report, that appraisal standards for the VA guaranty mortgage need to be tightened and then they list various ways that it can be tightened up and made much more efficient to, hopefully, weed out abuse and also to make it better for all concerned.

Perhaps you would want to comment on what you feel should be done to tighten up those practices.

Mr. LLEWELLYN. I was only commenting—making that comment in light of what had gone on in Camden, with the fee appraisals. I do not have any specific guidelines.

Mr. SMITH. Okay. Mr. Chairman, that is all my questions, and I do thank you all for coming out this evening.

Mr. SHELBY. I have one last comment.

My understanding that a $27,500 guaranty means a no down payment to the veteran on a $110,000 loan, is that right?

Mr. DE RITTER. That is correct.

Mr. SHELBY. Okay.

Mr. SMITH. If I could ask one additional question?

Mr. SHELBY. Yes. Go ahead.

Mr. SMITH. Mr. Berman alluded to this.

Mr. DE RITTER. That only involves—

Mr. SMITH. Excuse me, Mr. De Ritter.

Mr. DE RITTER. That only involves the sale of that loan to Ginnie Mae or other secondary investors. It does not necessarily limit it to an originator that is not going to sell the loan that is involved.

It is not a VA limit, but it is a realistic limit that pertains to those loans that are sold by Ginnie Mae.

Mr. SHELBY. Let us just say, for example, that a house in Bergen and Essex Counties sold for $200,000. If a veteran qualified financially and otherwise, would you—

Excuse me. We are going back to Mr. Jordan.

Mr. JORDAN. Bob Jordan from County Mortgage. Congressman Shelby, Congressman Smith, Ginnie Mae was alluded to. There was only one home for VA and FHA mortgages. That is in Ginnie Mae securities. So, there are not any other investors that are going to buy them. We are not going to go into that tonight.

Mr. SHELBY. You are talking about the secondary investor.

Mr. JORDAN. Yes.

Mr. SHELBY.That is ultimately what you are aiming for because of that security and that is what they are buying.

Mr. JORDAN. Right.

And, in line with that, Ginnie Mae's rules are a $135,000 is the top mortgage right now on a VA loan. That $200,000 some odd home, and that eligibility of $27,500 and the mathematical figures worked—

Mr. SHELBY. Cutting some veterans out of some participation, is it not?

Mr. JORDAN. Right. So, Ginnie Mae is going to have to change some of their rules, and you might want to look into that, but that is—it all goes back to that, Congressmen.

Mr. SHELBY. Thank you, Mr. Jordan.

Mr. De Ritter, do you have any other comments on that?

Mr. DE RITTER. No, I do not.

Mr. SHELBY. Okay.

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Mr. SMITH. Mr. Chairman, if I could ask one other question?

Mr. SHELBY. The gentleman from New Jersey.

Mr. SMITH. Mr. Jordan, I think, perhaps you might want to comment on this. Mr. Berman alluded a minute ago and in your testimony, Mr. De Ritter, you also made the statement that seller resistance to the payment of discount points contributes to their unwillingness to sell to veterans under the VA program when alternative buyers are available.

We have heard that in various configurations this evening, and I wonder if you could tell us if you think legislation or new regulations might be in order at this time to try to change this situation.

Mr. JORDAN. I do not know if you need new regulation. I am not an expert on how the VA laws and rules are. But, speaking for New Jersey, conventional financing, 5 percent down, what have you, I see 99 out of 100 loans with 3 points, 2.5 points, the buyer pays his or her own, and there is no resistance whatsoever from the seller, obviously.

On the other hand, what we have to say, 4, 5 or 6 points to a seller on a VA loan, there is tremendous resistance or as one of the gentlemen mentioned here, there is an attempt to increase the value of the home.

Now, the value is not there, and the appraisal comes in where it should be or lower, and there is no sales, there is no mortgage for the veteran.

So, I think if the vet is allowed to pay his own points, reasonable market points, even though he is looking for no down payment mortgage, I guess it is not as after the second World War where everything was packaged in, he still has to have some funds, for his attorney, for his escrow and for the two or three points.

Does that answer your question?

Mr. BERMAN. It does not make sense for the seller to sell to a veteran when he has two potential buyers, one who comes in and says well, negotiate it with me, and the other a veteran who says here, is 6 percent, now you pay it. Which one would you choose?

Mr. SMITH. That is it. Thank you.

Mr. SHELBY. Gentlemen, thank you for coming tonight. I know it took a lot out of your schedules; however, we cannot have hearings during the week while we are in session.

Thank you a lot.

[Whereupon, at 8:55 p.m., the subcommittee was adjourned.]

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APPENDIX

STATEMENT

OF

ELMER DE RITTER, JR., LOAN GUARANTY OFFICER

VETERANS ADMINISTRATION REGIONAL OFFICE

NEWARK, NJ

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you this evening to discuss the Veterans Administration Home Loan Guaranty Program in the State of New Jersey.

Mr. Chairman, certain factors unique in the State of New Jersey have had an impact on the VA Home Loan Program.

- The extension of the authority of the New Jersey Department of Banking to regulate mortgage companies in 1982 resulted in our recognition in December 1983 of all mortgage companies as supervised lenders, with authority to originate VA guaranteed loans on an automatic basis; a factor which should facilitate the origination of VA loans. We also worked closely with the Department of Banking concerning "financial consultants" who were charging veterans exorbitant fees for merely referring a refinance loan to a lending institution in violation of New Jersey State and Federal laws.

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- Two attorneys from our District Counsel's office were appointed as Special United States Attorneys for the purpose of conducting foreclosures of our vendee loans, and for processing Chapter 13 bankruptcy cases. This has helped relieve a severe backlog in the Civil Division of the United States Attorney's office.

LOW VOLUME OF LOAN ORIGINATIONS

Mr. Chairman, VA loan activity in the State of New Jersey has shown a steady decline over the past few years. Appendix A, attached to my written statement, shows the number of loan applications received and loans closed for our office, for Fiscal Years 1982, 1983, 1984, and 1985. In reviewing the statistics, several factors must be considered:

- A large pent-up demand developed during the recession of 1980-1982, resulting in much of the loan activity in 1983.

- Many refinance applications were received in 1983 to allow veterans to lower the high interest rates on loans obtained during 1981 and 1982.

This data indicates that the VA loan volume for the purchase of homes in New Jersey has been low over a period of years. The decline in VA loan originations in New Jersey has occurred in spite of a high level of real estate activity which began in late 1982, and continues to the present.

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Several factors can be identified which have impacted on the volume of VA loans in this State; none of which is solely responsible for the steady decline:

- The high and escalating prices of homes in New Jersey have prevented many people from purchasing a home.

- The number of cases in which the VA refused acceptance of a conveyance of foreclosed property from the holder increased from 18 in FY 1982 to 53 in FY 1985. These "no amount specified" cases have caused lenders to be more concerned about the quality of the applications they submit.

- The 1 percent funding fee, coupled with other closing costs and normal loan discounts, increased the cost of VA financing and thus priced some buyers out of the market.

- The availability of 5 percent down payment programs for conventional loans has made low down payment money widely available.

- Seller resistance to the payment of discount points contributes to their unwillingness to sell to veterans under the VA Program when alternative buyers are available.

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Recent restrictions on 5 percent down payment loans and changes in underwriting criteria, will make conventional mortgage money less available to veterans, as will the sharp increases in private mortgage insurance premiums. Consequently, it is important that the Loan Guaranty Program be attractive to program participants to insure the availability of VA-guaranteed mortgages to veterans of this State, while at the same time reflecting valid underwriting standards.

PROPERTY SALES

Mr. Chairman, our increasing emphasis on property sales has resulted in a decrease in our property inventory. During FY 1985, we acquired 606 properties and sold 711 (Appendix A). Over 40 percent of our sales were all cash sales.

Several of the techniques that have enabled us to accelerate our sales and reduce our property inventory are as follows:

- Realistic pricing of properties on the initial listing has allowed us to sell our properties more promptly and at the same time generate broker and purchaser interest in our sales program. Down payments are also tailored to local market conditions. Properties that do not sell quickly are reduced in price after two listings.

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- The availability of our properties is widely publicized. Extensive advertising is done in many large and small newspapers throughout the State. Our sales listing, which is sent to over 2,000 realtors, usually has a cover sheet highlighting sales program information and changes. Hundreds of listings are distributed to prospective purchasers who walk in or call the Regional Office. We have added 324 realtors to our mailing list during the past year.

- During the past year we instituted a procedure to have the realtor's commission check available at the Regional Office rather than being sent from the Treasury Department, which took 2 or more weeks.

- Limiting repairs to those that are absolutely necessary so that VA-owned properties can be marketed as soon as possible.

- The opportunity to purchase for cash, 10 percent below the list price, has sparked investor interest.

- The increased use of "For Sale" signs on VA-owned properties has also contributed to purchaser and broker awareness.

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One result of our efforts to aggressively sell VA-owned properties was a reduction in the average holding time of each property from 11.9 months in FY 1982 to 7.1 months in FY 1985, thereby reducing the burden of monthly carrying charges for management fees, real estate taxes, uncollected interest, etc.

Mr. Chairman, we still have several problems in disposing of our property inventory:

- The filing of Chapter 13 bankruptcies, both before and after loan termination, delays our acquiring title to and the marketing of the property and substantially increases our loss per property.

- Foreclosures of vendee mortgages by the U.S. Attorney's office had typically taken 4 to 5 years to complete. In order to expedite these foreclosures, arrangements were made to have two of our District Counsel attorneys appointed as Special Assistant United States Attorneys. We have made significant progress in reducing this problem.

- Eviction of former owners has become increasingly difficult, especially with the availability of the Chapter 13 remedy.

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FRAUDULENT PRACTICES

Mr. Chairman, the fraudulent practices that have recently been uncovered in the State of New Jersey are a matter of great concern. While more detailed information can be obtained from the VA Inspector General relating to specific cases, we can report on the nature of the fraudulent practices we have referred for investigation.

The methods used to perpetrate fraud are widely varied. Fraud can involve such things as misrepresentation of the number of dependents and marital status, failure to occupy the property, omission of information on previous loans in order to obtain an improper Certificate of Eligibility, fraudulent W-2's or 1040's, giving a false address for the employer resulting in an invalid employment verification, fraudulent deposit verifications, credit reports that do not accurately portray the veteran's credit history, and improperly inflated appraisal values. The most common type of fraud uncovered at the Regional Office involves the manipulation of Social Security numbers when obtaining a credit report. By reversing or changing a single digit, the credit report often shows no record of credit for a particular individual who, in fact, may have a poor credit history. Unless a loan processor or examiner is paying extremely close attention to such details, minor modification in the Social Security number can be overlooked. As we will discuss, we are taking steps to prevent such deception. The other most commonly detected frauds involve employment verifications and occupancy certifications.

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The scope of these types of fraud in terms of the number of participants involved also varies widely. Some, such as the failure to disclose all dependents, can involve only the loan applicant, but may also be done at the suggestion of the realtor or loan solicitor to assure approval of the loan. Appraisal fraud normally involves at least two parties, with one person influencing the appraiser to obtain an inflated value. Fraud involving credit reports can be perpetrated by credit reporting companies, realtors, loan solicitors, loan processors, branch managers of mortgage companies, etc.; often with several persons acting in concert to achieve the desired result. Some conspiracies to originate loans based on false data can be so widespread as to encompass not only the lender, the realtor and, the loan applicant, but also accountants, and third parties posing as employers.

Mr. Chairman, at the Newark Regional Office we use several detection techniques to combat these practices.

- VA records are used to confirm Social Security numbers, verify compensation payments, detect previous VA home loans and other indebtedness to the VA.

- Our "in house" credit terminal is used extensively to obtain backup credit reports, especially when an inconsistency in the Social Security number or other data is evident. Backup credit reports also reveal

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such things as prior foreclosures and judgements, child support obligations, amounts of debts, detailed payment history, and other data which the submitted credit report may not have disclosed. The credit report from the terminal also highlights variations in Social Security numbers on record with the credit bureau.

- A 10 percent post audit review is conducted on Employment and Deposit verifications.

- The IBM personal computer is used to analyze defaults occurring in the first 3 months in order to detect patterns involving the same lenders, realtors, credit companies, and reasons for default.

- A close working relationship has been established between Regional Office personnel and those from the VA OIG and FBI.

- Our loan examiners and loan servicers have become more aware of the fraudulent techniques and their detection.

Using these techniques, we have made numerous referrals of fraudulent practices to the VA OIG.

We are contemplating the use of a computer to assist in making assignments to our fee appraisers so that through the use of

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various sort routines we could detect patterns involving the correlation of lenders and appraisers, and inflated values.

At the present time we have 64 fee appraisers and 25 management brokers who are independent contractors and have no access to our in-house records.

The recent aggressive investigation, and the results from it, should have many beneficial effects. Program participants are now very much aware of the possible penalties resulting from wrong doing. VA employees also see the results of careful review, detection, and referrals of suspected fraud to the proper authorities and are encouraged to continue such activities.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions that you or Members of the Subcommittee may have.

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APPENDIX A

LOAN GUARANTY COMPARATIVE STATISTICS

	Fiscal Year 1982	Fiscal Year 1983	Fiscal Year 1984	Fiscal Year 1985
Appraisal Requests Received	12,919	21,030	8,739	7,610
Loan Applications Received	4,377	7,551	5,796	3,085
Loans Closed	6,243	6,986	9,779	3,484
GI Loan Defaults Reported	5,222	4,682	3,990	4,554
Claims Paid	456	594	864	810
"No Amount Specified" Cases	18	39	51	53
Properties Acquired	513	589	790	606
Properties Sold	579	611	683	711

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OPENING STATEMENT OF ROBERT A. HINCKEN
VETERANS ADMINISTRATION
ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS
BEFORE THE HOUSE VETERANS' AFFAIRS COMMITTEE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
FIELD HEARING -- TRENTON, NEW JERSEY
OCTOBER 18, 1985

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MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I AM PLEASED TO BE HERE THIS EVENING TO DISCUSS OUR INVESTIGATIONS REGARDING FRAUDS PERPETRATED IN CAMDEN AND WILLINGBORO, NEW JERSEY AGAINST THE VA GUARANTEED HOME LOAN PROGRAM. AS THIS MATTER IS STILL SENSITIVE DUE TO INVESTIGATIVE AND LEGAL PROCEEDINGS THAT ARE STILL IN PROGRESS, I WILL, OUT OF NECESSITY, LIMIT MY PRESENTATION TO GENERAL, NON-SPECIFIC INFORMATION REGARDING THIS MATTER.

THE PURPOSE OF THE VA'S HOME LOAN GUARANTY PROGRAM IS TO FACILITATE THE EXTENSION OF MORTGAGE CREDIT ON FAVORABLE TERMS BY PRIVATE LENDERS TO ELIGIBLE VETERANS. IN THE EVENT OF DEFAULT, THE VA GUARANTY PROTECTS LENDERS AGAINST LOSSES UP TO A MAXIMUM OF THE LESSER OF 60% OF THE MORTGAGE OR $27,500. WHEN A VA GUARANTEED LOAN GOES INTO FORECLOSURE, THE VA PAYS THE LENDER'S CLAIM. THE LENDER HAS THE OPTION OF CONVEYING THE PROPERTY UNDER CERTAIN CIRCUMSTANCES. IN THE PAST THE VA HAS ACQUIRED THE PROPERTIES IN ABOUT 95% OF THE CASES AND RESOLD THEM TO RECOUP SOME OF THE LOSSES. THE VA INCURS SUBSTANTIAL COSTS IN PURCHASING, MANAGING, IMPROVING, AND SELLING THESE PROPERTIES. AS A RESULT, ANY FRAUDULENT ACTIVITY THAT CULMINATES IN DEFAULTS OF VA GUARANTEED PROPERTIES CAUSES SIGNIFICANT LOSSES TO THE VA.

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IN EARLY 1983, PRELIMINARY INQUIRIES WERE INITIATED IN CAMDEN, NEW JERSEY, BASED ON INFORMATION PROVIDED BY A LOCAL INVESTIGATIVE REPORTER. THESE INQUIRIES DETERMINED THAT THERE APPEARED TO BE A PATTERN OF CERTAIN REAL ESTATE FIRMS AND MORTGAGE COMPANIES INVOLVED IN NUMEROUS REAL ESTATE TRANSACTIONS THAT RESULTED IN DEFAULTS AND FORECLOSURES. . AS A RESULT, A FORMAL JOINT INVESTIGATION WAS BEGUN IN JANUARY 1984 INVOLVING THE FEDERAL BUREAU OF INVESTIGATION, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S OFFICE OF INSPECTOR GENERAL INVESTIGATORS, AND INVESTIGATORS FROM MY OFFICE.

IN 1982 AND 1983, HUD SOLD IN EXCESS OF 800 HOMES IN THE CAMDEN, NJ AREA UTILIZING THE "BULK SALES" METHOD, OF WHICH APPROXIMATELY 500 WERE LATER APPRAISED BY VA FEE APPRAISERS, BUT PROCESSED WITH FHA INSURED MORTGAGES. DURING THE INVESTIGATION APPROXIMATELY 50 OR 60 OF THESE PROPERTIES WERE RE-APPRAISED BY VA AND HUD STAFF APPRAISERS AND IN MOST CASES IT WAS DISCOVERED THAT THE ORIGINAL APPRAISALS WERE HIGHLY INFLATED AND IN TEN CASES WERE TOTALLY FALSE IN THAT THE PROPERTIES WERE WORTHLESS.

DURING THE INVESTIGATION SEVERAL REALTORS, REAL ESTATE INVESTORS AND DEVELOPERS WERE INTERVIEWED AND QUESTIONED CONCERNING THE USE OF VA FEE APPRAISERS WHEN THEY KNEW THAT THE PROPERTIES WERE GOING TO BE SOLD UTILIZING THE FHA INSURED MORTGAGES. THEY ALL STATED

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THAT THIS WAS BECAUSE THE VA'S APPRAISAL SYSTEM WAS EASIER AND CAUSED THEM LESS PROBLEMS. ONE REALTOR STATED THAT THE MAIN REASON HE FAVORED UTILIZING THE VA APPRAISAL SYSTEM WAS THAT IF THE APPRAISAL WAS CONVERTED TO A HUD INSURED MORTGAGE THERE WAS VERY LITTLE CHANCE OF THE PROPERTIES RECEIVING A VA STAFF REVIEW, AND IN THE 10 YEARS HE HAD BEEN IN THE REALTY BUSINESS IN THE CAMDEN AREA, HE HAD NEVER HAD A PROPERTY THAT HAD BEEN ORIGINALLY APPRAISED BY THE VA AND CONVERTED, REVIEWED BY VA STAFF APPRAISER.

A REVIEW OF VA AND HUD LOAN GUARANTY RECORDS RESULTED IN THE IDENTIFICATION OF NUMEROUS TARGETS AS POSSIBLY BEING INVOLVED IN A CONSPIRACY TO DEFRAUD BOTH HUD AND THE VA'S LOAN GUARANTY PROGRAMS. THE TARGETS CONSISTED OF REALTORS, MORTGAGE COMPANIES, TITLE COMPANIES, FEE APPRAISERS, LENDERS AND GOVERNMENT EMPLOYEES. IN THE CAMDEN, NEW JERSEY AREA, A SUBSTANTIAL NUMBER OF HUD PROPERTIES AND SEVERAL VA GUARANTEED HOME LOANS WERE INITIALLY IDENTIFIED AS BEING INVOLVED IN THE FRAUDULENT ACTIVITY. IT WAS DETERMINED THAT ABOUT ONE-THIRD OF THESE LOANS WERE GUARANTEED BASED ON VA FEE BASIS APPRAISALS. ALL OF THE VA GUARANTEED LOANS HAD GONE INTO FORECLOSURE, AND IT WAS DETERMINED THAT ALL HAD INITIALLY BEEN SOLD BY THE SAME REALTY COMPANY.

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A SEPARATE JOINT INVESTIGATION WAS ALSO INITIATED IN WILLINGBORO, NEW JERSEY AFTER A SELECTION OF VA HOME LOAN GUARANTY PROPERTIES IN FORECLOSURE REVEALED EVIDENCE OF FALSE EMPLOYMENT AND INCOME DATA RELATIVE TO ORIGINAL PURCHASES BY VETERANS. THREE REAL ESTATE FIRMS WERE INITIALLY SELECTED AS TARGETS, AND ADDITIONAL TARGETS WERE IDENTIFIED AS THE INVESTIGATIONS PROGRESSED.

THESE INVESTIGATIONS UNCOVERED SEVERAL TYPES OF FRAUDULENT SCHEMES THAT HAVE A DIRECT IMPACT ON THE INTEGRITY OF THE VA'S LOAN GUARANTY PROGAM AND WHICH, IN SOME INSTANCES, ARE VICTIMIZING VETERANS PARTICIPATING IN THE PROGRAM.

IN ONE SCHEME, A REAL ESTATE BROKER RECRUITED A VETERAN TO BUY A HOME USING HIS VA LOAN GUARANTY ELIGIBILITY. BECAUSE THE VETERAN COULD NOT QUALIFY TO BUY THE HOME DUE TO INSUFFICIENT INCOME AND CREDIT PROBLEMS, HE WAS ADVISED BY THE BROKER TO FALSIFY HIS EMPLOYMENT, INFLATE HIS INCOME AND UTILIZE A FALSE SOCIAL SECURITY NUMBER TO OBTAIN A FAVORABLE CREDIT REPORT. THE BROKER MADE THE FIRST THREE MONTHLY MORTGAGE PAYMENTS IN BEHALF OF THE VETERAN BEFORE THE LOAN WENT INTO DEFAULT. THE VA WAS SUBSEQUENTLY FORCED TO PAY THE GUARANTY.

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IN ANOTHER SCHEME, A REAL ESTATE COMPANY PURCHASED A HOUSE FROM HUD AT A VERY LOW PRICE. THE BROKER TALKED A VETERAN FRIEND INTO USING HIS VA ELIGIBILITY TO BUY THE HOUSE ON PAPER ONLY AS A "STRAW BUYER". THE BROKER PAID A CONTACT IN A LOCAL MORTGAGE COMPANY TO ARRANGE FOR A SPECIFIC VA FEE APPRAISER TO DO THE APPRAISAL ON THE HOUSE. THE BROKER SUBSEQUENTLY BRIBED THE APPRAISER AND GOT A HIGHLY INFLATED APPRAISAL. THE BROKER THEN LET THE LOAN GO INTO DEFAULT AND THE VA HAD TO PAY THE GUARANTY AT A CONSIDERABLE LOSS.

IN ADDITION, SEVERAL CASES INVOLVED REAL ESTATE BROKERS WHO SOLICITED VETERAN HOME BUYERS AND CONVINCED THEM THAT THE PAYMENTS ON HOMES WOULD BE LOW ENOUGH FOR THEM TO AFFORD. THE BROKER HAD THE VETERANS SIGN BLANK APPLICATION FORMS AND SUBSEQUENTLY SUBMITTED THESE FORMS AFTER FALSIFYING EMPLOYMENT AND CREDIT INFORMATION. WHEN THE VETERANS REALIZED WHAT HAD HAPPENED AND WANTED TO CANCEL THE PURCHASE, THE BROKER EITHER THREATENED THEM BY TELLING THEM THEY COULD BE SUED FOR BACKING OUT OF THE DEAL OR INDUCED THEM INTO GOING ALONG WITH THE SCHEME BY CONVINCING THEM THAT THEY COULD SELL THE HOUSE AT A LARGE PROFIT.

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CRIMINAL PROSECUTIONS TO DATE THAT HAVE RESULTED FROM THE JOINT INVESTIGATIONS IN CAMDEN AND WILLINGBORO INCLUDE 10 CONVICTIONS OF INDIVIDUALS INVOLVED IN LOAN GUARANTY FRAUD SCHEMES. AMONG THE INDIVIDUALS CONVICTED WERE SENIOR OFFICIALS OF AN INVESTMENT COMPANY, AN OFFICIAL OF A LARGE MORTGAGE FIRM, MEMBERS OF A REAL ESTATE FIRM AND A VA FEE APPRAISER. IN ADDITION, SEVEN INDIVIDUALS HAVE BEEN RECENTLY INDICTED OR HAVE HAD CRIMINAL INFORMATIONS FILED AGAINST THEM AND ARE FACING TRIAL. OUR INVESTIGATIONS ARE CONTINUING, AND ADDITIONAL CRIMINAL AND CIVIL ACTIONS ARE ANTICIPATED.

MR. CHAIRMAN, THIS CONCLUDES MY STATEMENT. I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS NOT INVOLVING SENSITIVE INFORMATION REGARDING ONGOING INVESTIGATIONS YOU OR OTHER MEMBERS OF THE COMMITTEE MAY HAVE.

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THE Mortgage Bankers Association
OF NEW JERSEY
2333 MORRIS AVENUE, SUITE D-10, UNION, N. J. 07083, (201) 688-1935
TRENTON OFFICE: 28 WEST STATE STREET, SUITE 203, (609) 393-2129

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LEE A. HARRIS

Executive Director & Counsel
E. ROBERT LEVY

October 10, 1985

STATEMENT BY E. ROBERT LEVY, EXECUTIVE DIRECTOR AND COUNSEL, MORTGAGE BANKERS ASSOCIATION OF NJ BEFORE THE CONGRESSIONAL COMMITTEE ON HOUSING, TRENTON, N.J.

I WOULD LIKE TO THANK CONGRESSMAN SMITH AND THE OTHERS ASSOCIATED WITH THIS COMMITTEE'S EFFORTS FOR INVITING US HERE TODAY TO DISCUSS THE VERY IMPORTANT ISSUES ASSOCIATED WITH THE VA'S PROGRAMS IN NEW JEPSEY. AS EXECUTIVE DIRECTOR OF AND COUNSEL TO THE MORTGAGE BANKERS ASSOCIATION OF NEW JEPSEY, I REPRESENT OVER 230 MEMBERS, INCLUDING THE LARGEST MORTGAGE LENDERS IN THE STATE.

OUR MEMBERS HAVE BEEN A PRIMARY SOURCE FOR VA FINANCING IN NEW JERSEY OVER THE YEARS. WE ARE VERY SUPPORTIVE OF VA'S PROGRAMS AND WILL ASSIST IN ANY WAY WE CAN TO ASSURE THEIR CONTINUATION AS A SOURCE OF LOW COST FINANCING. IN THIS REGARD, OUR BOARD OF GOVERNORS HAS SPECIFICALLY AUTHORIZED OUR ASSOCIATION TO TESTIFY HERE TODAY.

I WOULD NOW LIKE TO PRESENT ROBERT JORDAN, SR. OF COUNTY MORTGAGE COMPANY, INC., VERONA, NEW JERSEY, WHO IS AN ACKNOWLEDGED EXPERT IN THE VA PROGRAMS IN NEW JERSEY. HE HAS BEEN ACTIVE FOR MANY YEARS IN MBA, NOT ONLY AS A BOARD MEMBER, BUT ALSO AS OUR FHA/VA COMMITTEE CHAIRMAN. HE HAS AGREED TO TESTIFY TODAY AND IS THE MOST KNOWLEDGEABLE INDIVIDUAL WE CAN PROVIDE IN SEEKING

ANSWERS TO YOUR QUESTIONS. THEREFORE, I WOULD NOW LIKE TO TURN MBA'S TIME OVER TO BOB JORDAN.

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CMC

COUNTY MORTGAGE COMPANY, INC.

COMPLETE MORTGAGE BANKING SERVICES

799 BLOOMFIELD AVENUE
VERONA, N. J. 07044
MAILING ADDRESS: BOX 66, ESSEX FELLS, N.J. 07021

October 18, 1985

STATEMENT OF ROBERT R. JORDAN, SR.
MEMBER, BOARD OF DIRECTORS, MORTGAGE
BANKERS ASSOCIATION OF NEW JERSEY

I AM DELIGHTED TO BE HERE TODAY BECAUSE I FEEL A RESPONSIBILITY AS A MORTGAGE BANKER AND AS A REPRESENTATIVE OF THE MORTGAGE BANKERS ASSOCIATION OF NEW JERSEY TO SUPPORT AND STIMULATE VA FINANCING IN OUR STATE. I SHOULD NOTE AT THE OUTSET THAT OUR MEMBERSHIP IS GENERALLY SUPPORTIVE OF GOVERNMENTAL PROGRAMS SUCH AS THOSE THE VA OFFERS, WHICH DO NOT COMPETE WITH MORTGAGE MONEY AVAILABLE FROM PRIVATE SOURCES, AND WHICH FULFILLS A LEGITIMATE NEED WHICH THE MARKET PLACE OTHERWISE WOULD NOT BE ABLE TO MEET. THE VA HAS DONE THIS FOR MANY YEARS AND WE WOULD HOPE IT WILL CONTINUE TO DO SO. HOWEVER, WE BELIEVE THAT IN ORDER TO STIMULATE VA FINANCING, SOME OF THE FOLLOWING HAS TO OCCUR:

(1) ACCORDING TO THE MOST RECENT VA CENSUS, THERE ARE 925,000 VETERANS IN N.J.. YET MOST OF THEM DO NOT REALIZE THAT THEY ARE ELIGIBLE FOR THE HOME LOAN PROGRAM OR THAT THEY MAY HAVE BECOME RE-ELIGIBLE THROUGH THE SALE OF THEIR HOME AND THE PAYMENT OF THEIR EXISTING MORTGAGE. THE VA, VETERANS GROUPS, LENDERS AND OTHERS ARE SIMPLY NOT PROVIDING SUFFICIENT ADVERTISING AND P.R. TO MAKE THIS INFORMATION COMMON KNOWLEDGE.

(2) FREE THE VA INTEREST RATE AND POINTS AS THE FHA DID. LET THE MARKETPLACE SET RATES AND DISCOUNTS. THIS WILL LEAD TO LOWER POINTS, MARKET RATES, AND A HIGHER VOLUME OF LOANS. THE VET AND LENDER SHOULD BE ABLE TO NEGOTIATE POINTS AND RATES FREELY.

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(3) THE LOAN GUARANTY SHOULD BE INCREASED (SEE MBA OF AMERICA RECOMMENDATION) IN ORDER TO ALLOW HIGHER MORTGAGE AMOUNTS IN HIGH COST AREAS SUCH AS NEW JERSEY.

(4) USER FEES SHOULD NOT BE INCREASED. THE FUNDING FEE IS NOW 1%. IF IT GOES ANY HIGHER, IT WILL CUT INTO LOAN VOLUME.

(5) APPRAISALS SHOULD REPRESENT MARKET VALUE. THE VA TENDS TO UNDERAPPRAISE. THIS IS A COMMON COMPLAINT. ON SMALL DOWN PAYMENTS, THIS CAN TERMINATE A DEAL.

(6) STAFF AND PRODUCTIVITY HAS ALWAYS BEEN A PROBLEM. RIGHT NOW WITH A SMALL STAFF AND LOW VOLUME OF APPLICATIONS, IT IS NOT A SERIOUS PROBLEM. HOWEVER, IF VOLUME INCREASES THIS WILL BECOME A HIGHER PROBLEM.

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NEW JERSEY ASSOCIATION OF REALTORS®

EXECUTIVE OFFICE: 295 PIERSON AVENUE (201)494-5616
MAILING ADDRESS: P.O. BOX 2098, EDISON, N.J. 08818

TO: MEMBERS OF THE U.S. HOUSE OF REPRESENTATIVES
VETERANS'S AFFAIRS SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

FROM: JOHN H. SIKKING, REALTOR

DATE: OCTOBER 18, 1985

My name is John H. Sikking. I am broker of record for Spartan Realty, a small office doing business in Gloucester and Camden Counties in the southern portion of New Jersey. I've been in the real estate business since 1971. I've owned Spartan Realty since 1976. So far this year we've completed 53 settlements; only four of them were financed through the Veteran's Administration Home Loan Guaranty Program. I sold two homes owned by the VA that were repossessed from their owners. I sold 15 houses that used Federal Housing Administration financing. The balance was conventionally financed. It is my understanding that this Committee is interested in ideas for ways in which the Veterans Administration can

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be a more viable force on home purchases by veterans in New Jersey.

I believe that real estate professionals shy away from VA financing because of the cumbersome way in which the VA operates on two points; the procedure for appraising properties for sale and the matter of who pays the mortgage placement fee. Currently, the veteran is not permitted to pay the mortgage placement fee.

The appraisal procedure that is used by the VA as compared with conventional financing adds an additional two weeks to the whole process. The VA has a fee appraiser that does the actual appraising and that fee appraiser is then required to send his work up to the Veteran's Administration office in Newark. This takes approximately two weeks longer than FHA or conventional financing. After the VA reviews the appraisal, it is then sent to the the mortgage company for the processing of the loan. Currently, the FHA allows the fee appraiser to return the appraisal to the mortgage company directly.

In addition, if the the appraisal is lower than the selling price and the seller wants to appeal, the procedure takes approximately one month to complete

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through the VA. An appeal through FHA takes about a week to two weeks. This has an effect on the willingness of a real estate professional to use VA because when you have a problem with a certain type of financing you tend to shy away from using it.

The general feeling, especially in my office, is that the we don't like dealing with an agency that is far away from our place of business. The regional VA office is in Newark and it also deals with New York and Connecticut. We feel they're removed from us. Whereas, the FHA has an office in Camden as well as in Newark. New Jersey is served by two FHA offices. The Veteran's Administration's Regional Office, in contrast, serves three states

Current law states that a veteran cannot pay mortgage placement costs, or "points". Only the seller can pay points. In FHA financing, the seller or buyer may pay points. So, if a seller has to give up point money on top of a low and "slow" VA appraisal, the seller is less likely to want to sell to an eligible veteran purchaser than to a conventional buyer.

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There are two types of procedures in Veteran's Administration loan program for appealing an appraisal on a home. One of them is where the veteran initiates the appeal. In many cases, if an appraisal comes in, for example, one thousand dollars lower than the selling price and time is a problem in processing the mortgage, the seller feels obligated to accept the lower price because the seller is committed to purchase another house. The seller is now a purchaser himself and he feels the pressure to accept a low appraisal. So, if a veteran purchaser refuses to sign the form to authorize an appeal procedure, in trying to get a lower sales price, what can the seller do? This is not a problem for the veteran in this case. But, what happens is that REALTORS and other licensed real estate professionals have a bad feeling about dealing with the VA because they were not able to quickly resolve problems with one transaction.

Now, when they meet another eligible veteran purchaser they are likely to recommend to that purchaser to go through FHA or conventional financing rather that utilize his VA eligiblity.

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STATE SERVICE OFFICE
VETERANS OF FOREIGN WARS
OF THE UNITED STATES
DEPARTMENT OF NEW JERSEY

VETERANS ADMINISTRATION BUILDING — AREA CODE 645-3744
20 WASHINGTON PLACE, NEWARK, N.J. 07102 — 201 — 623-4736

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STATEMENT OF

JOHN B. WOODBURY III, STATE SERVICE OFFICER
DEPT. OF NEW JERSEY V.F.W. OF THE U.S.
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFIARS
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

TRENTON, N.J. OCT 18, 1985

MR. CHAIRMAN, AND THE MEMBERS OF THE SUBCOMITTEE:

Thank you for the privilege of appearing before this Subcommittee to present the views of the Veterans of Foreign Wars of the United States ,Dept of N.J. with the respect to the VA Home, Loan Guarantee Program. My name is John B. Woodbury III, and it is my privilege to serve the more than 73,000 members of the V.F.W. Dept of N.J. as their State Service Officer.

The V.F.W. is appreciative of the chairman for holding this hearing in our State, demonstrating his and the Subcommittees continuing concern for our Nations veterans being able to obtain the American dream of home ownership. We are delighted to have the opportunity to welcome back not only to his home state, but to his district, the very distinquished ranking minority member of the committee Chris Smith. Chris has been a strong advocate for the veterans

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since his election to the house and his voting record exemplifies this strong commitment. He is a true friend of the veteran and we are extremely pleased that he is here. We are also pleased to note the addition of another respected member of the N.J. Congressional Delegation to your committe, Jim Florio,another friend of the veteran.

Mr. Chairman, the V.F.W. continues to consider the VA Home Loan Guaranty Program as one of the most successful and beneficial program available to veterans. More than eleven million loans have be approved, thus attesting to it's popularity. If it were not for this program a vast number of veterans would not be in their own homes today. We believe that the Loan Guaranty Program should continue to enjoy the full support of the Congress and the Administration. Unfortuanately, the Presidents budget is recommending two proposals which would, in our opinion, severely undermine this highly successful program.

One such proposal would be to raise the "user fee" for a VA guaranteed home loan from one percent to five percent. In as much as we opposed the establishment of a " user fee" and its subsequent increase from one half of one percent to a full one percent, we are now even more committed in our oppostion to this proposed excessive and unwarranted increase. One of the attractive features of the Home Loan Guaranty Program is the provision of not requiring a down payment. Many of todays two income families can manage a

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large monthly mortgage payment. However, they have not been able to save enough capital to meet the stiff down payment requirements of commercial lending institutions. As we have stated in the past, we perceive the "user fee" to be, in effect, a down payment without the benefit of equally reducing the amount to be financed. Of course, the veteran may opt to have this fee incorporated into the loan. This avenue, though, is hardly advantgeous to the veteran. Assuming $60,000 to be average VA guaranteed loan, a $3,000 user-fee would be assumed. This original $3,000 amount amortized over 30 years at todays current market rate would require the veteran to actually pay over $11,000 or nearly four times the required amount. In addition there is the very real possibility of lenders requiring increased compensation for the the higher risk of lending an amount greater than the value of the property. If a veteran opts to amortize the user fee and not render a down payment the lender would then have to grant a loan for the current value of the property plus the user fee.

Mr. Chairman the Administration is also proposing to repeal the Veterans Administration authority to establish a home loan interest rate. We believe departing from this policy would be a serious mistake and detrimental to the veterans best interest.

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At present the VA only establishes the maximum interest rate a veteran can pay on a guaranteed loan. Even though lenders may charge a lesser rate, cases such as this are rare or non-existant. We believe should veterans be forced to negotiate this rate, they will ultimately pay higher rates than they do with an administered rate. One reason for this anticipated higher interest payment is that the lenders set the rate. Because most home buyers do not shop around for the best lender package, we do not foresee the " competive factor" holding down the rate. In addition Va guaranteed loans offer benfits that are not always available on conventional loans. Assumability, no prepayment penalties and fixed rates are attractive terms that private lenders may consider are justification for assessing higher rates. Not only would the veterans experience increased expenses with a negotiated rate, we beleive the VA would witness increased claim costs should foreclose procedings occur. When a VA guaranteed loan goes to foreclosure the claim is paid with interest based on the mortgage rate. Inasmuch as we expect higher interest rates should this proposal be enacted, it can only be expected outlays will increase from the Loan Guaranty Revolving Fund. As one can deduce it would also be very difficult to predict future revolving fund outlays with such a variance of interest rates through out the nation. Finally Mr Chairman,it should be noted the "Housing Act of 1985" would provide for the repeal of FHA's negotiated interest policy a policy which did nothing to reduce the lenders point requirements.

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Mr. Chairman these proposals are the part of the Administration bill entitled "Veterans Housing Admendents Act of 1985" and the V.F.W. opposes this draft bill in toto.

Mr. Chairman my office is located in the VA regional office in Newark, and as such I have frequent dealings with the Home Loan Division there. I have always found the personnel of that the division to be professional in their conduct and most cooperative to deal with. I have also found them to be overworked, something that unfortunately not uncommon in the Newark R.O. due to the decrimental budgets of the past few years through out the Department of Veterans Benefits.

This concludes my testimony and again we thank you for the oppurtunity to appear.

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STATEMENT OF JOSEPH W. LLEWELLYN, NATIONAL SERVICE OFFICER, DEPARTMENT OF NEW JERSEY, DISABLED AMERICAN VETERANS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

On behalf of the over one million members of the Disabled American Veterans nationwide and particularly the 30,000 members here in New Jersey, may I say that we appreciate being given this opportunity to participate in this evenings proceedings.

Mr. Chairman, you have requested our views relating to the V.A.'s Home Loan Guaranty Program in the State of New Jersey.

There is no doubt that the V.A. Home Loan Guaranty Program -- the purpose of which is to assist eligible veterans in obtaining mortgage credit for a home purchased with no down payment -- has been a solid investment in America and the State of New Jersey. The V.A.'s Home Loan Guaranty Program has added stability and expanded the tax base of nearly every community in our state.

Veterans' use of the V.A. Loan Guaranty Program -- like private sector housing programs -- is subject to and directly related to general economic conditions and, more specifically, to conditions in the financial and housing markets. Fortunately, economic conditions have abated somewhat and mortgage funds are generally more available, interest rates are down from their record-breaking high in Fiscal Year 1982 and home prices have remained relatively stable. Additionally, the high rates of unemployment have also been reduced significantly.

Despite these generally favorable economic factors, the V.A. Home Loan Guarantee has become suspect recently. The D.A.V. is most disturbed by the recent disclosures of the V.A.'s office of the Inspector General concerning the mobile home industry "kick back" scheme, the "equity skimming schemes" and the reports of the audit of the V.A. appraisal system, particularly in the Camden, N.J. area. During the ongoing investigation in the Camden, N.J. area by the V.A., HUD and the FBI, identified approximately 50 highly inflated and 10 false appraised reports that were processed through the V.A. system and converted to HUD insured loans.

During this investigation, several realtors, real estate investors and developers were interviewed and questioned as to why V.A. fee appraisers were used when they knew that these properties were going to be sold using the FHA insured mortgages. In responding to this question, these individuals indicated that the V.A. fee appraisers were "easier" and cause them less problems. One realtor stated that he favored the V.A. appraisal system because if the appraisal was converted to an H.U.D. insured mortgage, there was little chance of the property receiving V.A. staff review. The IG's review of 500 V.A. fee

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basis appraisals in Camden confirmed that none had received V.A. staff review.

This report further indicates that of 43 properties reappraised by a V.A. appraiser and construction analyst, inflated appraisal amounts ranged from $2,200 to $10,400 per property and 10 properties were totally worthless and were originally appraised by a V.A. fee appraiser to be worth between $24,000 and $33,000.

The IG's report also points out that as a result of the decrease in value of these properties, the V.A. paid higher claim amounts than necessary, thus causing greater indebtness for the veterans who lost their homes through foreclosure.

The D.A.V. here in New Jersey is equally concerned over the control of the "automatic program" or prior approval of loan applications. We see a unique situation here in New Jersey since the Mortgage Companies, as well as the banking institutions, can submit a pre-approved V.A. mortgage application. We are concerned that in an industry whose scruples have already been shown to be suspect by recent investigations, that there are insufficient controls by the V.A.

Mr. Chairman, it is clear that there are individuals and companies who wish to illegally profit at the expense of veterans and the V.A. Therefore, we feel that further steps need to be taken to insure the solvency and integrity of the V.A. Home Loan Guaranty Program, as well as assure that credit worthy veterans who wish to purchase a home utilizing this progam can do so.

We definitely believe there's a need for administrative and/or legislative improvements that could result in substantial savings for veterans and the Loan Guaranty Fund. This is especially true if: collected debts and fines imposed for violations of law were deposited in the Loan Guaranty Fund; foreclosure actions were completed in a timely manner; only credit worthy veterans were appoved for loans; veterans in default were to receive greater assistance in counseling from the V.A.; and a strict, uniform system of guidelines were developed for V.A. fee appraisers.

Mr. Chairman, we urge you and the members of this Committee to take whatever action necessary to assure that our nation's veterans continue to have the benefit of a well-managed and financially sound V.A. Home Loan Guaranty Program.

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THE FOLLOWING STATEMENT WAS OFFERED BY RALPH L. STONE, CHAIRMAN, REHABILITATION GENERAL SERVICES COMMITTEE, THE AMERICAN LEGION, DEPARTMENT OF NEW JERSEY, TO THE UNITED STATES HOUSE OF REPRESENTATIVES VETERANS AFFAIRS SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

THE AMERICAN LEGION APPRECIATES THE OPPORTUNITY TO COMMENT ON THE VETERANS ADMINISTRATION LOAN GUARANTY PROGRAM HERE IN NEW JERSEY AND WE ARE GRATEFUL FOR THE SUBCOMMITTEES OBVIOUS INTEREST.

IT APPEARS THAT SOME VETERANS ARE FALLING VICTIM TO CERTAIN INDIVIDUALS AND COMPANIES WHO PLACE SUCH A HIGH PRIORITY ON PROFIT MAKING THAT THEY WILL RESORT TO SUCH ILLEGAL PRACTICES AS INFLATING AND FALSIFYING APPRAISAL REPORTS TO ACHIEVE THEIR REPREHENSIBLE GOALS. THE AMERICAN LEGION FEELS STRONGLY THAT ANY INDIVIDUAL OR COMPANY FOUND GUILTY OF ANY VIOLATION OF THIS NATURE SHOULD BE PROSECUTED TO THE FULL EXTENT ALLOWABLE BY LAW. IT IS ALSO OUR BELIEF THAT THE VETERANS ADMINISTRATION HAS AN OBLIGATION TO BE MORE OBSERVANT OF THOSE INDIVIDUALS AND COMPANIES WHO UTILIZE THE LOAN GUARANTY PROGRAM TO ASSURE THAT THEY COMPLY WITH THE LETTER OF THE LAW AND TO WEED OUT AND INSTITUTE LEGAL ACTION AGAINST THOSE WHO DO NOT.

WE WOULD NOW LIKE TO ADDRESS TWO AREAS THAT CONCERN US AND WHICH WE BELIEVE ARE PARTIALLY RESPONSIBLE FOR THE LOW RATE OF USAGE BEING EXPERIENCED IN THE LOAN GUARANTY PROGRAM.

TO BEGIN WITH IT WOULD APPEAR THAT THE CURRENT ENTITLEMENT LEVEL OF $27,500.00 IS SOMEWHAT LOW AND SHOULD BE INCREASED TO A LEVEL THAT WOULD OFFER GREATER INCENTIVE TO PROSPECTIVE LENDERS. GIVEN THE COST OF AN AVERAGE HOUSING UNIT IN TODAY'S ECONOMY $27,500. DOES NOT APPEAR TO BE A REALISTIC AMOUNT AND WE WOULD URGE AN APPROPRIATE INCREASE IN THIS ENTITLEMENT LEVEL.

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THE SECOND AND MOST IMPORTANT CONCERN IS THE CURRENT LOAN ORIGINATION FEE. THIS FEE IS CURRENTLY SET AT 1% WITH PROPOSALS BEING MADE TO INCREASE IT TO AS MUCH AS 5%. IT IS THE VERY STRONG BELIEF OF THE AMERICAN LEGION THAT THE CURRENT ORIGINATION FEE SHOULD BE REPEALED INSTEAD OF INCREASED BECAUSE IT IS OUR OPINION THAT THIS FEE HAS RESULTED IN AN APPRECIABLE DECLINE IN THE NUMBER OF VETERANS SEEKING THIS BENEFIT. AS IT IS THE ORIGINATION FEE COSTS A VETERAN WHO USES HIS ENTITLEMENT THOUSANDS OF DOLLARS OVER THE LIFE OF A MORTGAGE AND LITERALLY CONSTITUTES A "CHARGE" FOR A BENEFIT WHICH HAS ALREADY BEEN PAID FOR BY INDIVIDUAL SACRIFICE.

THE LOAN GUARANTY PROGRAM IS ONE WHICH NOT ONLY BENEFITS THE VETERAN BUT ALSO MAKES SIGNIFICANT CONTRIBUTIONS TO MANY FACETS OF THIS NATIONS ECONOMY. IT IS A WORTHWHILE PROGRAM AND IT'S VALUE TO AMERICA SHOULD NOT BE UNDERESTIMATED.

WE URGE THE SUBCOMMITTEE TO RECOGNIZE THE IMPORTANCE OF THIS PROGRAM AND ASK THAT ANY PROPOSED LEGISLATION BE DIRECTED TOWARD IMPROVING PROGRAM BENEFITS AND USAGE.

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Jewish War Veterans of the United States of America
1811 R Street, N.W., Washington, D.C. 20009
(202) 265-6280

Dear Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Jewish War Veterans of the United States of America, chartered by an Act of Congress and the oldest active veterans organization in the USA, on the operation of the VA's Home Loan Guarantee Program in the State of New Jersey.

First, I would like to extend my appreciation to Chairman Shelby, the members of your subcommittee, and staff for working so hard to defeat the administration's proposal to raise the loan origination fee from 1% to 5% this past spring. If this proposal had become law the Congressional Budget Office estimated that it would have depressed new loan originations by 20% or more and result in increased defaults. However, if history is any guide to future proposals regarding the home loan guarantee program, I expect another proposal to "reform" the loan guarantee program next spring when the President submits his budget for fiscal 1987. Therefore, I look forward to joining forces with other veterans organizations and this Subcommittee to protect this "old-time" veterans benefit that has enabled over 11 million veterans to own their homes in the last 40 years.

For tonight's hearing, I will concentrate my remarks to three areas. First, I will comment on the decrease of the number of loans in the State of New Jersey. Second, I will examine the reasons why this decrease has occured. Finally, I will offer a few solutions that should be considered by this Subcommittee that would reverse this trend and stabilize the revolving fund of the home loan guarantee program.

The VA home loan guarantee program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program's purpose is to assist qualified veterans to achieve home ownership. The program provides two primary benefits to veterans. First, the VA guarantees a portion of the veteran's mortgage principal up to a maximum of $27,500. This guarantee should allow lenders to provide veterans purchasing homes with a financing at a lower rate than is available to non-veterans. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. As I have stated this program has allowed over 11 million veterans to own their homes. However, in the State of New Jersey the program has not been achieving the desired results for the last three fiscal years.

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From fiscal year 1983 to fiscal 1985 loan orginations have declined by almost 4,500. In fiscal 1985, only a little over 3,000 VA loan originations took place. This is lower than the number of loan originations in fiscal 1982, the height of the recession, when over 4,000 originations took place. There are many reasons for this serious decline and I would like to expand on a few of them at this time.

Two of the main reasons why VA home loans have dropped off so rapidly is the number of points a seller must pay on a loan and the fact that these points are not negotiable. According to our National Service Officer, Joseph Schimkowitz, and VA officals in the State of New Jersey, a non-negotiable point system has created an atmosphere of reluctance among sellers when it comes to loan transactions with veterans. For instance, if a veterans applies for $100,000 loan, which is not uncommon given that 58% to 70% of VA guaranteed loans closed were 100% loans, at a six point rate then the seller must pay the lender $6,000 before the veterans can receive the loan. In many cases, the seller, in an effort to make up the difference, raises the price of the house or tries an under the table deal. Either way the veteran ends up on the short end.

The non-negotiability of VA loans adds another aspect that discourages veterans from applying for VA home loans. For instance, in New Jersey many banks have instituted a Fannie Mae program. Under this program, the veteran must make a 5% downpayment but it carries only 3 points. The points are negotiated between the buyer and the seller and there is a greater incentive to sell veterans property. Also, the FHA program is run in a similar fashion except the downpayment is structured diffirently. Many veterans are taking advantage of this program and in fact, in a nine county region in New Jersey FHA reported that they originated 600 loans in one month. According to the VA regional office in Newark, their best month for the whole year was just under 300 loan originations.

A third reason why veterans may be reluctant to use a VA loan is the amount of money the VA guarantees may be to low. The current guarantee is now 60% of the loan amount, up to a maximum of $27,500. This limits the size of the loan a veteran may received. Unfortunately, housing costs nationwide have risen 24% in the last couple of years but veterans have not received any increase in the guaranteed protion of their loan. Consequently, many veterans, especially those in New Jersey where the housing costs may be higher, are delegated to poorly contructed houses.

I would now like to offer a few solutions that would increase the number of VA home loans in the State of New Jersey and other states that share similar problems, so that veterans use the loan program and some revenue is raised to help the revolving fund which is clearly in need of assistance. First, the Jewish War Veterans would wholly support raising the entitlement from $27,500 to at least $32,000. This increase will allow the veterans to receive a maximum loan of $128,000. Veterans would then have the option of purchasing quality housing at an affordable interest rate. Second, we would also support legislation that would allow the veteran to negotiate the interest

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rate, the points or both with the seller and lender. This will help remove the resistance that many veterans in the State of New Jersey are encountering because of sellers paying points when they sell property to veterans. Finally, I believe this Subcommittee should examine the VA's review of its existing underwriting standards, evaluate the "case by case" method that Congress mandated in the Deficit Reduction Act of Fiscal 1984, review and re-evaluate the effectiveness of the VA's disposition methods and finally, examine the possibility of eliminating the feature of vendee mortages where non-veterans can receive below market interest rates on foreclosed loans. Any solutions must be geared to providing more loans for veterans and this may be the best way to stabilize the revolving loan fund. As the members of this Subcommittee know, many witnesses made this same recommendation when you held a hearing on March 5, 1985, when this Subcommittee considered the administration's request to raise the loan origination fee.

Mr. Chairman, I have raised some serious issues in relation to a very vital VA benefit program. I am hopeful that with the help of all present tonight that we will get the VA Home Loan Guarantee Program turned around in the State of New Jersey. Thank you for your time and consideration.

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